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Categorical Grants: Their Role and Design

THE INTERGOVERNMENTAL GRANT SYSTEM:
AN ASSESSMENT AND PROPOSED POLICIES



**ADVISORY
COMMISSION
ON
INTERGOVERNMENTAL
RELATIONS**

Washington, D.C. 20575

A-52



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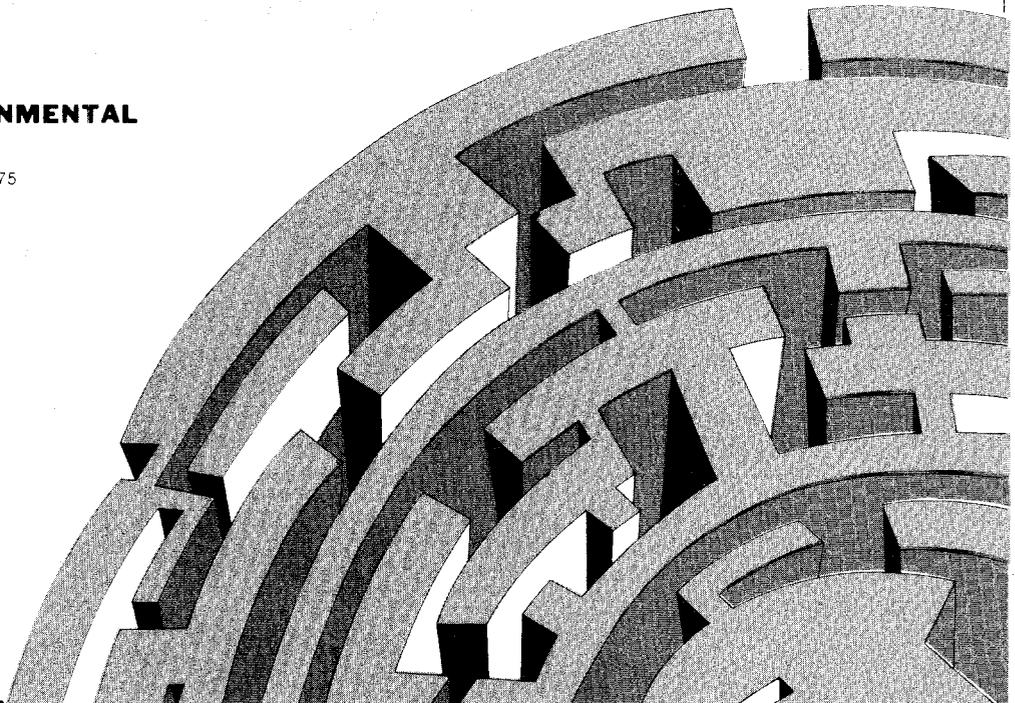
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Preface

Pursuant to its statutory responsibilities authorized in Section 2 of Public Law 380, passed during the first session of the 86th Congress and approved by President Eisenhower on September 24, 1959, the Commission singles out particular problems impeding the effectiveness of the federal system for study and recommendation. The current intergovernmental grant system was identified as such a problem by the Commission in the spring of 1974 and is the subject of this series of volumes, *The Intergovernmental Grant System: An Assessment and Proposed Policies*. This report on federal categorical grants-in-aid is the first in the series.

In an era that has seen the advent of general revenue sharing and five block grants, categorical grants continue to be the dominant form of financial assistance employed in the federal grant system, in terms of numbers, dollars, and intergovernmental problems generated. This volume examines the history, current status, traits, and problems surrounding the design and implementation of these grants and presents Commission recommendations for making them more efficient and effective. It was approved by the Commission at its meeting of May 6, 1977.

Robert E. Merriam
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Acknowledgments

This volume was prepared by the governmental structure and functions section of the Commission staff under the general direction of Assist. Dir. David B. Walker. The following staff members were responsible for individual chapters: *Chapters I, II, and VI*—David R. Beam; *Chapters III and VII*—Albert J. Richter; and *Chapter V*—J. H. Fonkert. Harriet Halper, project associate, was responsible for most of the research for and writing of *Chapter IV*. Mitchell R. Julis, summer intern, preformed the research for and prepared the first draft of *Chapter VII*. Bruce D. McDowell put *Chapter VII* into final form and gave other assistance in the preparation of the report, particularly on *Chapter IX*. L. Richard Gabler, Robert J. Kleine, Will S. Myers, John P. Ross, and Carl W. Stenberg, also of the ACIR staff, provided helpful counsel on one or more chapters. Carol Monical Wright provided library assistance. Secretarial support services mainly were performed by Evelyn M. Nolin and Linda S. Silberg, including assistance in the preparation of data sheets for the inventory of grant programs described in *Chapter IV*. Beverly A. Preston and Deanna R. Bird also provided secretarial assistance.

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Part I

The Intergovernmental Grant System: An Assessment and Proposed Policies

Introduction to the Series

In its 1967 report, *Fiscal Balance in the American Federal System*, the Advisory Commission on Intergovernmental Relations (ACIR) called for a new federal aid mix that would recognize the need for flexibility in the types of financial assistance provided to state and local governments. This mix would involve a combination of federal categorical grants-in-aid, block grants, and per capita general support payments (general revenue sharing). Each aid mechanism, in the Commission's view, was designed to accomplish different objectives. The categorical grant would help finance specific national interest programs and underwrite demonstration and experimentation projects; the block grant would allow states and localities considerable flexibility in meeting needs within broad functional areas while pursuing national objectives; and general revenue sharing would provide additional financial resources without functional restraints to state and local governments for conducting programs in response to their own priorities.

Following a survey of the intergovernmental scene in the spring of 1974, the Commission found that a tripartite federal aid system, embodying each element that it had recommended seven years earlier, in fact had been established. Yet it also found that the system had by no means become stabilized. When the first general revenue sharing (GRS) legislation came up for renewal, debate was widespread over how GRS funds were used by state and local governments, and Congress' reenactment of the program was uncertain. Growing confusion surrounded

the distinctive statutory and administrative features of block grants and continuing concern was voiced over the future role of categorical grants. The Commission concluded that a reassessment of its general 1967 recommendation was timely.

Having completed a reexamination of general revenue sharing and essentially reaffirmed its initial support for that program,¹ the Commission launched this series of studies, *The Intergovernmental Grant System: An Assessment and Proposed Policies*, focusing on block and categorical grants. The basic purpose of the study is to evaluate the traditional and current issues involving these grant programs and to consider ways of enhancing the effectiveness of each. Major questions addressed include:

- Does the form of a grant make any difference in achieving its legislative purpose? What are the special values of the several types of categorical grants?
- Have grant management reforms had a perceptible impact? What problems still beset the categorical system? Are they as serious as ever? What further reforms are needed?
- What has been the experience with block grants? Has practice conformed to theory? Has experience been the same for all the block grants? What factors are essential to their success? What are their special strengths and limitations?

- What kind of impact—fiscal and administrative—is the federal grant system having at the state and local levels?
- How fragmented is the federal aid system? What about claims concerning the existence of 500, 1,000, 1,600, or more grants to state and local governments?

In recognition of the pivotal role of states in the intergovernmental grant system, the study also examines the states as prime recipients of federal assistance, as direct providers of services to their citizens, and as dispensers of aid (from their own and federal sources). This element of the study constitutes an updating of the Commission's 1969 report, *State Aid to Local Governments*.

The Commission's analyses, findings, and recommendations with respect to four of the five existing block grants and overall conclusions and recommendations on block grants in general are presented in six volumes in the series.² Two additional volumes address the improvement of federal grants management and the attitudes of local, state, and federal officials toward the intergovernmental grant system generally.³ Finally, two reports deal specifically with grants-in-aid and the fiscal impact of federal grants on state and local governments.⁴

The majority of the current volume—constituting Part II—focuses on federal categorical grants-in-aid, although several chapters have applicability beyond categorical grants. Before proceeding to this analysis, however, the scene for the entire study is set by defining federal grants and differentiating between the grant types and their relationships to one another.

GRANTS-IN-AID DEFINED

During its annual production of the federal budget, the Office of Management and Budget (OMB) issues an instructional circular (A-11) to executive departments and agencies concerning the preparation and submission of their budget estimates.⁵ Within Circular A-11 federal aid to state and local governments is defined and described for use in producing the special analysis of federal aid that has appeared in budget documents for almost 30 years. Following is that definition:

Such aid is defined as resources provided by the federal government in support of a

state or local program of governmental service to the public. This includes:

(a) Direct cash grants to state or local governmental units, to other public bodies established under state or local law, or to their designees (e.g., federal aid for highway construction).

(b) Outlays for grants-in-kind, such as purchases of commodities distributed to state or local governmental institutions (e.g., school lunch programs).

(c) Payments to nonprofit institutions when:

(1) The program is coordinated or approved by a state agency (e.g., the Hill-Burton hospital construction program).

(2) Payments are made directly because of provisions of a state plan or other arrangements initiated by a state or local government (e.g., federal aid for higher education).

(3) Payments are made with the explicit intent of augmenting public programs (e.g., community action programs).

(d) Federal payments to Indian tribal governments, when:

(1) The legislation authorizing the payment includes such entities within the definition of eligible state or local units, or

(2) The tribal government acts as a nonprofit agency operating under state or local auspices (as described in (c) above).

(e) Shared revenues and payments in lieu of taxes (e.g., payments from receipts of Oregon and California grant lands).

(f) Payments to regional commissions and organizations that are redistributed at the state or local level or provide public services.

(g) Federal payments to state and local governments for research and development that is an integral part of the state and

local government's provision of services to the general public (e.g., research on crime control financed from law enforcement assistance grants or on mental health associated with the provision of mental rehabilitation services. See (k) and (l) below for exclusions related to research and development).

(h) Direct federal loans to state and local governments for purposes similar to those for which grants are made. (Show these amounts as loans and repayable advances.)

Excluded under this definition are:

(i) Federal administrative expenses associated with these programs.

(j) Grants directly to nonprofit institutions not covered above, individuals, and profit-making institutions (e.g., payments for Job Corps centers and to trainees).

(k) Payments for services rendered (e.g., utility services, tuition payments, research and development for federal purposes conducted under contracts, grants, or agreements by such agencies as the National Institutes of Health, the National Science Foundation, the Energy Research and Development Administration, the National Aeronautics and Space Administration, and the Department of Defense).

(l) Federal grants to cover administrative expenses for regional bodies and other funds not redistributed to the states, or their subordinate jurisdictions (e.g., the administrative expenses of the Appalachian Regional Commission).⁶

With a few notable exceptions, this definition of grants has been used in identifying the five block grants and the 442 state-local categorical grants considered in this study. The exceptions include shared revenues, payments in lieu of taxes, and loan programs, which have been excluded. Additionally, all programs of aid to institutions of higher education have been classified according to the descriptions of eligible recipients. If the program provides aid exclusively to public institutions of higher education

or if the states and local governments have a role in the grant process, it is considered a grant to state and local governments. If private nonprofit institutions of higher education are eligible to receive funds without any action on the part of a subnational governmental unit even though public institutions also may be eligible for assistance, the program is not included as a state-local government grant program. This exclusion reduces by about 15% the number of cash grants that customarily are cited as aids to state and local governments, but the concern herein is with grants that primarily benefit these governmental jurisdictions.⁷

Although the above definition, with refinements as noted, has been followed in the count of categorical programs, a broader one, usually the full OMB definition, has been used in the fiscal tables in this volume.

A TYPOLOGY OF FEDERAL GRANTS

The federal grant-in-aid system now consists of three general types of grants: categorical grants, block grants, and general revenue sharing.⁸

Categorical grants can be used only for a specifically aided program and usually are limited to narrowly defined activities. Legislation generally details the parameters of the program and specifies the types of funded activities. However in some cases, such as the rat control program (conducted under the general authority to fund programs dealing with the prevention and control of communicable diseases), the specific activities may be determined by administrators.

This study identifies four types of categorical grants: formula grants, project grants, formula-project grants (combining various aspects of both grant types), and open-end reimbursement grants. This classification is based chiefly on an analysis of the means of distributing the funds available to carry out approved activities and focuses on the degree to which the process fosters competition among potential recipients and vests discretion in federal administrators.

When grant funds are allocated among recipients according to factors specified within enabling legislation or administrative regulations, the grant is considered a formula grant. Project grants are non-formula in nature—potential recipients submit specific, individual applications in the form and at the times indicated by the grantor. The formula-project categorical grant uses a mixture of fund allocation

means; distribution takes place in two stages—the first involves state area allocations governed by a statute or regulation formula and the second entails project applications and discretionary awards. Open-end reimbursement grants—often regarded as formula grants—are characterized by an arrangement wherein the federal government is committed to reimbursing a specified proportion of state-local program costs, thus eliminating competition among recipients as well as the need for an allocation formula.

The second of the tripartite components of the present federal grant system is the block grant. It may be defined as a grant that is given chiefly to general purpose governmental units in accordance with a statutory formula for use, largely at the recipient's discretion, in a variety of activities within a broad functional area. Fundable activities are more numerous than for a categorical grant and fewer conditions constraining recipients' discretion in funds spending are attached.

The third component of the federal grant system is general revenue sharing (GRS), under which funds are distributed by formula with few or no limits on the purposes for which they may be spent and few if any restrictions on the procedures by which they are spent.

Although this tripartite breakdown of grants-in-aid generally is used, some public finance economists distinguish only two types of grant: conditional and unconditional.⁹ Grants are made either with (conditional) or without (unconditional) limitations on expenditures. Under this typology both categorical and block grants would be considered conditional grants, despite considerable variation in the number and severity of conditions attached to each type of grant.

The opportunity to group both categorical and block grants under the "conditional" heading suggests the difficulty of drawing a hard and fast line of differentiation between the two. This situation is created by the fact that existing block grants vary as to scope of activities covered and the amount of discretion allowed recipients and that current categoricals also cover a wide spectrum of activities and recipient discretion. Finally GRS is not entirely without conditions; recipients must conform to certain public participation and reporting regulations and nondiscrimination and Davis-Bacon requirements.

The differentiation of the three types of grants (and among the four kinds of categoricals) thus reflects varying combinations of three characteristics:

1. **The range of federal administrator's funding discretion.** At one extreme no such discretion exists because grant funds are distributed by an entitlement formula with a legislative prescribed matching ratio. At the opposite extreme the federal administrator has wide latitude in awarding project grants among many competing eligible recipients.
2. **The range of recipient discretion concerning aided activities.** Such discretion is greatest in the case of GRS and most constrained in certain project grants, wherein the scope of permitted activities is narrowly specified, sometimes to a particular facility or experimental program.
3. **The type, number, detail, and scope of grant program conditions.** These conditions, such as planning, fiscal management, administrative organization, and performance standards requirements, determine the degree of federal intrusiveness in the recipient's conduct of the grant-aided activity.

Figure 1 illustrates the range—between low and high—that the six grant types engender the three general characteristics. Overall, this figure indicates that project grants tend to place the most restraints on recipients because of a high degree of federal funding discretion, substantial federal intrusiveness through imposition of extensive performance conditions, and very restricted recipient scope in choice of permitted activities. At the other end of the spectrum, GRS, due to its formula entitlement basis, features no federal administrative discretion in fund distribution, minimum federal prescription of performance conditions, and the widest scope of permitted activities. Block grants, formula-based categoricals, formula-project categoricals, and open-end reimbursement grants fall between these two extremes when measured by all three traits.

For illustrative purposes special revenue sharing also is displayed in regard to the extent of performance conditions. Those who view this grant type as separate from block grants maintain that its principal distinguishing feature is the fewer restraints placed on the use of grant funds.

The positions shown in *Figure 1* are those that would *generally* prevail. Variations in performance conditions and recipient discretion likely could place a particular grant outside the normal location of

Figure 1
Classification of Grant Types by Three Defining Traits

A. Federal Administrator's Funding Discretion

Low			High
Formula	Block	Formula- project	Project
Open-end reimbursement			
General revenue sharing			

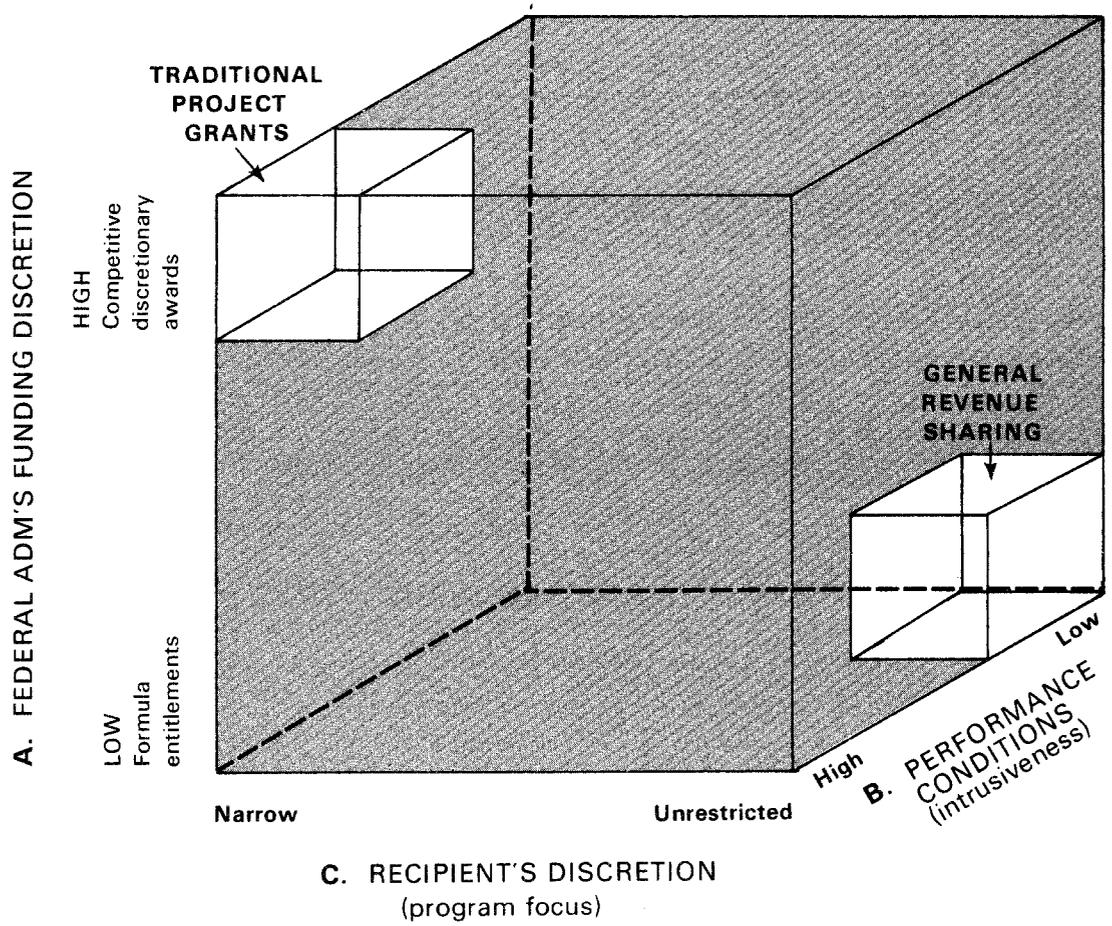
B. Range of Recipient's Discretion in Use of Funds

Low			High
Project		Block	General revenue sharing
Formula- project			
Formula			
Open-end reimbursement			

C. Extent of Performance Conditions

Low			High
General revenue sharing		Block	Project
"Special revenue sharing"			Formula
			Formula- project Open-end reimbursement

FIGURE 2
**Three-Dimensional Model
of Federal Grant Typology**



grants of its type.

Figure 2 is a three-dimensional presentation of the same typology. Only the two extremes are located: traditional project grants in the upper, forward, left-hand corner, and GRS in the lower, rear, right-hand corner. The other types of grants would fall elsewhere in the unoccupied space. Moreover no two programs of any particular grant type might fall together, depending on how each combines the three basic differentiating characteristics. One could conceive, for example, of a formula-based categorical being located very close to a block grant and perhaps in some respects (e.g., federal administra-

tor's funding discretion) closer to the GRS corner than a particular block grant.

The two diagrams illustrate three points about the classification of grant instruments: they vary by the degree to which they incorporate the three basic characteristics; a continuum, shading gradually from maximum federal prescription and control to maximum recipient discretion, is a proper representation of the array of grant instruments; and the general description of a type of grant does not necessarily indicate where a particular grant will fall in the spectrum—its location depends on its unique combination of the three governing characteristics.

FOOTNOTES

¹See Advisory Commission on Intergovernmental Relations, *General Revenue Sharing: An ACIR Re-Evaluation (A-48)*, Washington, DC, U.S. Government Printing Office, 1974.

²See Advisory Commission on Intergovernmental Relations, *Safe Streets Reconsidered: The Block Grant Experience 1968-1975 (A-55)*, Washington, DC, U.S. Government Printing Office, January 1977; *Appendix to A-55: Case Studies (A-55a)*, Washington, DC, U.S. Government Printing Office, January 1977; *The Partnership for Health Act: Lessons from a Pioneering Block Grant (A-56)*, Washington, DC, U.S. Government Printing Office, January 1977; *Community Development: The Workings of a Federal-Local Block Grant (A-57)*, Washington, DC, U.S. Government Printing Office, March 1977; *The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant (A-58)*, Washington, DC, U.S. Government Printing Office, 1977; *Block Grants: A Comparative Analysis (A-62)*, Washington, DC, U.S. Government Printing Office, 1977.

³See Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management (A-53)*, Washington, DC, U.S. Government Printing Office, February 1977; and *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials (A-54)*, Washington, DC, U.S. Government Printing Office, March 1977.

⁴See Advisory Commission on Intergovernmental Relations, *The States and Intergovernmental Aids (A-59)*, Washington, DC, U.S. Government Printing Office, February 1977; and *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates (A-61)*, Washington, DC, U.S. Government Printing Office, February 1977.

⁵Office of Management and Budget, *Preparation and Submission on Budget Estimates*, Circular No. A-11, Revised, Washington, DC, OMB, July 19, 1976.

⁶*Ibid.*, Appendix B, pp. A-5, A-6.

⁷For a detailed description of the methodology used to categorize grant programs, see Technical Note 1 in the Appendix to *Chapter IV*.

⁸A fourth type—special revenue sharing—is also sometimes identified, particularly in reference to proposals of the Nixon Administration. Those who see it as a separate form differentiate it from the block grant by the lack of a matching requirement and imposition of fewer conditions on recipient performance. Others see it, in substance, as identical with block grants. For expressions of the different points of view, see Advisory Commission on Intergovernmental Relations, *Block Grants: A Roundtable Discussion (A-51)*, Washington, DC, U.S. Government Printing Office, 1976, pp. 19-20.

⁹See, for example, Wallace E. Oates, *Fiscal Federalism*, New York, NY, Harcourt Brace Jovanovich, Inc., 1972, p. 65.

Part II

Categorical Grants: Their Role and Design

Introduction

Since the Advisory Commission on Intergovernmental Relations' (ACIR) call for a tripartite system of federal financial assistance to state and local governments a decade ago, general revenue sharing and block grants often have been in the spotlight of the discussion of intergovernmental fiscal instruments. This emphasis was particularly true during the New Federalism era of the Nixon Administration. Nevertheless categorical grants have continued to dominate the intergovernmental scene, in terms of numbers of programs covered, dollar volume, and the difficulties of interlevel administration. This part takes a fresh look at federal categorical grants in their contemporary setting.

For historical perspective the report first sketches the development of categorical assistance from 1862 to 1975. This chapter is followed by a brief analysis of why the categorical grant became such a potent element of American federalism. *Chapter III* examines the role of Congress in determining the direction of the federal grant system: What forces move it in choosing between categorical and block grants and designing grant legislation, and how does it oversee the implementation of enacted programs.

The fourth chapter sets forth the major contours of categorical assistance as they existed in FY 1975—an authoritative inventory of categorical programs and a detailed breakdown with respect to the four

major types, functional distribution, types of recipients, legislative purpose, and the patterns of administering agencies and Congressional committee jurisdictions. This chapter also delves briefly into two major aspects of categoricals—nonfederal matching and allocation formulas—but the many issues surrounding these subjects are dealt with in depth in *Chapter V* and *Chapter VI*.

Chapter VII looks at an issue of growing concern in the intergovernmental assistance system: the increasing number and complexity of administrative requirements that are generally applicable to grant-in-aid programs. These requirements include provisions such as environmental impact statements, Davis-Bacon, and equal employment requirements.

Chapter VIII summarizes the views of several major parties on issues relating to the choice of grant form and problems of grant administration. The chapter reviews the positions of five major national associations of state and local elected officials, city and county executives, state budget officers and administrators, as well as federal officials who administer grants-in-aid.

The final chapter summarizes the principal findings and conclusions, identifies major issues in categorical grant reform, and presents the 11 recommendations adopted by the Commission at its meeting of May 6, 1977.

Chapter I

The Development of Categorical Assistance: 1862-1975

EARLY CATEGORICAL GRANTS

The development of federal categorical assistance may be traced back to the *Morrill Act* in 1862. Under this act the Congress granted portions of the public domain to each state, to be sold by them, with the proceeds used for the support of institutions of higher education—the “land grant colleges.”

These grants were by no means the first using federal land. Earlier examples, including the pre-constitutional period, can be found, and a few previous grants had provided general support for education.¹ The *Morrill Act*, however, was intended specifically to assist the states in educating young people from the “agricultural and mechanical classes” in “agriculture and mechanic arts.”² Because the inspiration for the act arose partly from Civil War-related needs (for scientists and engineers and for farmers who could produce food for the Army), a requirement also was imposed: the colleges so aided must provide military instruction.³ States were to invest the principal from land sales in approved securities, to provide for construction, and to make annual reports on expenditures to the Congress.⁴ Thus basic elements in the pattern of categorical aid were established: “needed resources were provided in exchange for acceptance of certain national minimum standards for a specific purpose.”⁵

As historian Harry N. Scheiber points out, however, the land grant programs still lacked many features of modern grants-in-aid: no matching requirements existed; states retained control over profes-

sional standards, the level of support, curriculum content, etc.; and no administrative contacts were required with federal agencies, not even audits or inspections.⁶ The administrative conditions that were imposed were generally adhered to “more by chance than by design,” according to V.O. Key, Jr. The programs were greatly underadministered, and violations of legislative intent were commonplace.⁷

The movement from land to monetary grants began in 1879 with a program of special aid for the blind: federal allocations to the American Printing House for the Blind, a private nonprofit corporation, made possible the distribution of books and teaching equipment. The first annual cash grant to states was created by the *Hatch Act* in 1887, which led to the creation of agricultural experiment stations (most of which became associated with state colleges of agriculture). Under the terms of this program, \$15,000 was provided annually to each state and territory for use in testing, research, and dissemination of scientific information bearing upon agricultural production.⁸ In reaction to the serious maladministration of the land grant programs, states were required to submit detailed annual reports to the Secretaries of Agriculture and Treasury. In 1894 the Congress also empowered the Secretary of Agriculture to conduct a full audit of the experiment stations accounts.⁹

Other money programs, including aid to state veterans' homes and the land grant colleges, were established before the end of the century. The former program included a matching provision, al-

though most grants in this period were simply lump-sum allotments.¹⁰ The latter program, the *Morrill Act of 1890*, gave to the Secretary of the Interior the duty of certifying that each state was entitled to its annual grant; payments could be withheld, pending an appeal to Congress, if statutory purposes and conditions had not been met.¹¹

All these programs were important as early precedents for the development of the categorical grant system. In terms of their fiscal impact, however, they were trivial. As of 1902 less than 1% of all state and local revenue was provided by the federal government, and grants-in-aid were only slightly over 1% of all federal expenditures.

The later development of the categorical grant system is best explored in terms of five historical periods. These include the Formative Period (1911-32); the Depression and New Deal (1933-38); World War II and the Post-War period (1939-63); the Categorical Explosion of the 1960s, which led to the significant changes of New Federalism in the early 1970s (1969-75), including the adoption of general revenue sharing and the expanded use of the block grant device as well as the administrative initiatives of the Federal Assistance Review.

THE FORMATIVE PERIOD

The years before, during, and after the First World War—a period that included the adoption of the federal income tax via the Sixteenth Amendment to the Constitution—saw significant development of the federal grant device. Grants grew in number and

importance, and many additional modern administrative features were instituted. These years (1911-32) were the formative period of the modern grant system.

Significant steps in grant development were taken as early as 1911. The *Weeks Act* to promote state forestry was the first grant allocated according to an administratively determined or discretionary formula. It also imposed the first requirement of advance approval of state plans. In the same year the first open-end matching grant was created in a program for the support of state and municipal merchant marine training schools.¹²

The *Smith-Lever Act of 1914*, which instituted the agricultural extension system, incorporated several modern features: fund distribution among the states used an apportionment formula that was based, in part, on the size of the rural population; a matching requirement was established; and advance approval of state plans was required.¹³ Detailed planning and administrative requirements similarly were established by the *Smith-Hughes Act of 1917*, which marked the entry of the federal government into the vocational education field and brought state education practices under a hitherto unprecedented degree of national scrutiny.¹⁴

The most noteworthy development of this period was the enactment in 1916 of federal aid for state highway construction—the first truly large-scale assistance program. The highway grants became by far the most fiscally significant form of aid throughout the 1920s, as *Table I-1* indicates, accounting for better than three-quarters of all federal intergovern-

Table I-1
Federal Intergovernmental Expenditure, By Function, 1902-32
(In Millions of Dollars)

Year	Total	Education	Highways	Public Welfare	Other
1932	\$232	\$12	\$191	\$1	\$28
1927	123	10	83	1	29
1922	118	7	92	1	18
1913	12	3	—	2	7
1902	7	1	—	1	5

Source: U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970. Bicentennial Edition. Part 1*. Washington, DC, U.S. Government Printing Office, 1975, p. 1124.

mental expenditure both in 1922 and 1932.

The highway grants also foreshadowed the stringent conditions and controls of contemporary grant programs. For this reason, some analysts place these grants as the beginning of the modern grant era:

The highway grants were . . . the first sort of federal aid to be thoroughly supervised and administered. Advance examination of projects, detailed progress reports, audits of expenditure, careful examination of the finished work to ensure that plans had been followed and that there was proper maintenance—all the techniques of good administration—were utilized.¹⁵

Although most city streets were paved by 1916, dirt roads still predominated in rural areas. The highway act sought to bring rural postal roads up to urban standards. It therefore prohibited any expenditures in communities of more than 2,500 people—a restriction that was not lifted until the Depression.¹⁶ The program used a 50-50 matching ratio and distributed funds according to a formula based on area, population, and miles of rural postal routes. States were required to establish a highway department or commission and, in order to assure that an interconnected system of roads was produced, were compelled after 1921 to concentrate their expenditures on interstate highways.¹⁷

The expanding federal role was a matter of controversy in the early 1920s. The debate sometimes took a partisan cast, although both political parties tried to claim credit for the more popular (e.g., highways) programs. Sometimes this controversy was simply a matter of the “outs” criticizing the “ins,” and vice versa. For example in 1924 a Democratic platform plank on the “rights of states” condemned the “centralizing and destructive tendencies of the republican party” and their “efforts . . . to nationalize the functions and duties of the states.”¹⁸ This position was, of course, a striking reversal of the roles that generally prevailed in later periods: nearly all of the major extensions of federal activity since 1930 have been initiated by the Democrats and opposed by the Republicans.¹⁹

Considerable reaction against the intrusion of the national government into state affairs existed at the state level. This attitude was fueled by the 1921 highway amendments, which required a national pre-award determination of the state highway departments’ ability to administer the program.²⁰ The *Vo-*

cational Rehabilitation Act of 1920, which aided disabled veterans, also was resented strongly by state and local public health officials.²¹

Even more controversial was the *Sheppard-Towner (Maternity) Act of 1921*. Aimed at lowering the high mortality rate for mothers and infants, the program was regarded by its critics as an unconstitutional entry into the domain of state prerogatives and was challenged in court on that basis.²² The Supreme Court did not rule explicitly on the legal issues posed, but it effectively sanctioned the program by denying to both an individual citizen and the State of Massachusetts the standing to sue.²³ This decision made it almost impossible to challenge the use of spending and taxation powers by Congress and thus provided support for the expanded use of the grant device.

Adoption of the federal income tax in 1913 was a significant factor conditioning the expansion of the intergovernmental grant system, because it provided an important source of additional revenue. Previously the national treasury had depended chiefly on excise taxes, custom duties, and, prior to the passage of the *Homestead Act*, the sale of public land. The income tax quickly surpassed these sources in importance, providing nearly 60% of federal receipts in 1922. Since that time it has become increasingly productive because taxation has expanded to a larger number of citizens and because tax rates have risen. Moreover unlike the property taxes (and, later, sales taxes) on which local and state governments depend, the income tax also has been quite responsive to national economic growth; economic expansion brings an automatic growth dividend to the federal treasury. State and local receipts, in contrast, often have not kept pace with the growing demand for goods and services.²⁴ The resulting fiscal gap has provided a significant incentive for the adoption of additional federal financial aid programs.

THE DEPRESSION ERA

The fiscal vulnerability and inadequacy of many state and local governments clearly was revealed by the Great Depression. This era was an historic turning point and was, indeed, the most important period in the development of modern American federalism.²⁵ Federal participation in the domestic arena was broadened and deepened; new links between Washington, DC, and city halls were forged; and the legal basis for the expanding intergovernmental partnership was clarified.

Some 16 continuing grant-in-aid programs were established during the years 1933-38.²⁶ A number of temporary emergency relief measures also were enacted, some of considerable fiscal magnitude. The *Federal Emergency Relief Act of 1933* (FERA), for example, authorized expenditures of \$0.5 billion, while total spending for emergency relief public works in the peak year (1935) was nearly \$1.9 billion.

FERA also was the first attempt to distribute funds in accordance with each state's fiscal capacity and financial burden. Beginning in late 1934 mathematical formulas, based upon a variety of economic and business measures, set allocation quotas for each state, resulting in the federal share of the relief effort varying widely from state to state.²⁷

Because the emergency programs were intended to speed assistance to needy individuals, national administrative standards were enforced loosely. Hence these programs—most of which were terminated in the early 1940s (see *Table I-2*)—left little permanent mark on the intergovernmental system.²⁸ They did establish, however, a precedent for extensive federal involvement with state and local governments in areas of national concern.

Although fluctuating from year to year because of the temporary programs, the dollar amount of federal assistance grew sharply under the New Deal (see *Table I-3*), reaching a total of \$2.2 billion in

1935.²⁹ This figure was not to be reached again until 1950. The functional composition of grants also changed significantly, with social welfare expenditures outstripping highways as the largest aided activity by 1938.

The Social Security Act

The single most significant legislative enactment was the *Social Security Act of 1935* (SSA), which remains the foundation of the nation's social welfare system. Categorical programs were established for old age assistance, aid to the blind, aid to dependent children, unemployment compensation, maternal and child health, crippled children, and child welfare. The three public assistance programs (for the aged, blind, and dependent children) were open-end matching programs, constrained only by a limitation on the amount that could be paid to an individual recipient. The federal government assumed 100% of the cost of state unemployment insurance programs, while the matching requirements for the public assistance programs and various subprograms of the Children's Bureau ranged from zero to 50%. State financial need was one of the factors included in the formulas of several SSA programs.³⁰

Although the dollar magnitude of these programs was their most impressive feature, the conditions of aid also were noteworthy:

Table I-2
Emergency Relief Grants-in-Aid to State and Local Governments
Subsequently Terminated, 1931-39

Program	Administering Agency	Fiscal Year Established	Last Payment Made	Amount of Grant in Highest Year
Emergency Expenditures for Highways	Fed. Works Agency	1931	1940	\$ 275,667,000
Emergency Work Relief	Civil Works Admin.	1934	1938	805,123,000
Emergency Expenditures of Public Bodies	Public Works Admin.	1934	1944	327,808,000
Emergency Relief	Fed. Emergency Relief	1934	1940	1,814,477,000
Emergency Relief	Work Projects Admin.	1936	1944	1,929,276,000
Flood Relief-Restoration of Roads and Bridges	Fed. Works Agency	1939	1943	338,000

Source: ACIR, *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments*, Washington, DC, Advisory Commission on Intergovernmental Relations, June 1961, p. 20.

Table I-3
Federal Grants to State and Local Governments, By Purpose, 1930-38
(In Millions of Dollars)

Social Welfare														
Year	All Grants ^a	Total		Public Assistance		Health		Education		Miscellaneous Social Welfare		Highway		All Other
		Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	
1938	\$ 790	\$365	46.2	\$216	27.3	\$15	1.9	\$48	6.1	\$86	10.8	\$247	31.2	\$ 178
1937	818	230	28.1	144	17.6	13	1.6	38	4.6	36	4.4	341	41.6	247
1936	1,015	107	10.5	28	2.8	4	.4	37	3.7	37	3.7	224	22.1	684
1935	2,197	28	1.3	—	—	—	—	26	1.2	3	0.1	275	12.5	1,893
1934	1,803	24	1.4	—	—	—	—	22	1.2	2	0.1	222	12.3	1,557
1933	190	25	13.2	—	—	—	—	23	12.3	2	0.9	163	86.0	2
1932	214	26	12.1	—	—	—	—	24	11.3	2	0.8	186	87.1	2
1931	180	25	13.9	—	—	—	—	24	13.1	1	0.8	154	85.2	2
1930	100	23	23.2	—	—	b	—	22	21.8	1	1.3	76	75.5	1

Note: Includes Puerto Rico, Guam, and Virgin Islands. On basis of checks issued for years ending June 30.

^aExcludes shared revenues, payments in lieu of taxes, and grants for programs administered by the states as agents of the federal government.

^bLess than \$500,000.

Source: U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition, Part 2*, Washington, DC, U.S. Government Printing Office, 1975, p. 1125.

This type of grant was new in structure in that it combined an enlarged planning requirement, various options from which states could choose, and a high level of nationally instigated fiscal incentives to the states to participate. Perhaps most importantly the states were no longer merely recipients of grants and reporters of expenditure.³¹

Federal oversight was increased substantially:

Many [of the New Deal grant programs] were additions to the already established programs of the 1910s and 1920s. Since many of the services were new, and since the funding was generous, there were additional incentives for the attachment of greater conditions. Plans were required by almost every act and permanent programs had detailed administrative regulations.³²

A significant example of these regulations was the adoption in 1939 of a requirement that state employees administering the SSA programs should be selected by merit system procedures.³³ In 1940 restrictions on political activities by state and local government employees paid with federal funds were instituted by amendments to the *Hatch Act*.

Aid to Cities

Another effect of the Depression was to stimulate increased contacts between the federal government and the cities. Although some aid ultimately might be destined for municipal or county services, traditional practice had been to give grants to the states for distribution to their local subdivisions. Under emergency conditions this tradition, like so many others, was shattered. In the view of political scientist Roscoe Martin, the year 1932 was for this reason a "sort of geologic fault line" in the development of the federal system and national-local relations.³⁴ Historian Mark Gelfand notes:

The New Deal marked a new epoch in American urban history. Overlooked by the Constitution and ignored in a century-and-a-half of national legislation, the cities finally gained some recognition from Washington. Federal authorities, having taken on vast unprecedented responsibility for the urban-centered economic crisis, came to the cities' aid as part of the national fight against the Great Depression. Each successive relief and recovery measure opened up new lines of communication between two levels of government that had not previously acknowledged the other's existence.³⁵

Table 1-4
Local Government Revenue, By Source, 1927-50
(In Millions of Dollars)

Year	Total, All Sources	From Federal Government	From State Governments	From Local Sources
1950	\$16,101	\$211	\$4,217	\$11,673
1948	13,167	218	3,283	9,666
1946	9,561	53	2,092	7,416
1944	8,536	28	1,842	6,665
1942	8,114	56	1,780	6,278
1940	7,724	278	1,654	5,792
1938	7,329	167	1,516	5,646
1936	6,793	229	1,417	5,147
1934	6,363	83	1,318	4,962
1932	6,192	10	801	5,381
1927	6,333	9	596	5,728

Source: U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition, Part 2*, Washington, DC, U.S. Government Printing Office, 1975, p. 1133.

Faced with large unemployed populations and reduced tax revenues during the Depression (the consequence of falling assessed valuations and rising tax delinquencies), many mayors turned to Washington for assistance. Banding together in the U.S. Conference of Mayors (formed in 1933), these local leaders lobbied for unemployment relief, public works assistance, and other forms of aid.³⁶ Their pleas were effective. Local revenue from the federal government jumped from \$10 million in 1932 to \$229 million in 1936—a figure somewhat larger than payments to state governments in previous years. This assistance was cut back sharply during World War II but was resumed at nearly the same level in 1948, as shown in *Table I-4*.

One of the most significant permanent federal-local programs was that for public housing established in 1937. It authorized the U.S. Housing Authority to make loans to local public housing agencies for up to 90% of the cost of construction projects. The federal government itself was not involved directly in building or managing the housing as it had been during earlier efforts of the Public Works Administration.³⁷

The Spending Power

The New Deal also brought a clearer, expanded interpretation of Congressional authority to spend through grants-in-aid to promote the nation's general welfare under Article I, Section 8(1) of the Constitution. The sphere of federal lawmaking, of course, is limited to the subjects enumerated or implied in the Constitution, with other powers reserved to the states under the Tenth Amendment. Federal expenditures via the grant device, however, often have been made in functional fields that would preclude legislation. These programs rested on the view that the power of Congress to spend is more extensive than, rather than concurrent with, the enumerated or even implied lawmaking powers.

This view was subject to challenge. James Madison, writing in *The Federalist*, had argued that the spending power was subject to the same limits as was the power to govern. One legal authority thought it possible that a majority of the Supreme Court adhered to this interpretation as late as 1934.³⁸ In 1936, however, the Supreme Court explicitly rejected this position. It indicated in *United States v. Butler* that the power to spend for the general welfare was "separate and distinct" from those legislative powers enumerated and, therefore, not

restricted in meaning by them.³⁹ The Court's decision provided a firm legal foundation for federal involvement through grants in areas beyond those enumerated in the Constitution.

In a second significant New Deal decision, the Supreme Court upheld the *Social Security Act* against charges that the grant mechanism "coerced" states by the "whip of economic pressure" to "abdicate" to the national government powers protected under the reserved power clause of the Tenth Amendment. The opinion in *Steward Machine Co. v. Davis* (1937) observed that many states had refrained from the enactment of unemployment compensation laws prior to the development of the national program out of a fear that a tax imposed for this purpose would place them at a competitive economic disadvantage with their neighbors. The *Social Security Act*, Justice Cardozo wrote, was a cooperative attempt "to find a method by which all these public agencies may work together toward a common end."⁴⁰

The viewpoint represented in these opinions has won widespread judicial and public acceptance and, along with other decisions, appears to many commentators to have undercut the meaningfulness of the "reserved powers" clause of the Tenth Amendment and the traditional doctrine of "dual federalism," which held that the spheres of national and state responsibility are quite separate and distinct. In fact no grant program has ever been terminated by the courts on Tenth Amendment grounds. Largely as a consequence of these Depression cases, the point has been reached, in the view of one contemporary writer, where:

... no sphere of life is beyond the reach of the national government. Since we no longer question the constitutionality of federal acts, the deciding factor becomes one of policy rather than legality.⁴¹

The legal and philosophical issues of federalism, this political scientist believes, have been replaced by more pragmatic, programmatic, and administrative concerns of "intergovernmental relations."⁴²

WW II AND THE POST-WAR PERIOD

The period 1939 to 1963 saw further elaboration of the categorical grant system—many new programs were added and federal aid spending increased. Although more gradual than those of the New Deal,

Table I-5
Federal Grants to State and Local Governments, By Purpose, 1939-63
(In Millions of Dollars)

Social Welfare

Year	All Grants ^a	Total		Public Assistance		Health		Education		Miscellaneous Social Welfare		Highway		All Other
		Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	Amount	Percent of All Grants	
1963	8,324	4,825	58.0	2,730	32.8	292	3.5	558	6.7	1,246	15.0	3,023	36.3	477
1962	7,703	4,535	58.9	2,432	31.6	263	3.4	491	6.4	1,348	17.5	2,783	36.1	385
1961	6,921	3,950	57.1	2,167	31.3	240	3.5	460	6.6	1,083	15.6	2,623	37.9	349
1960	6,838	3,610	52.8	2,059	30.1	214	3.1	441	6.5	896	13.1	2,942	43.0	286
1959	6,316	3,450	54.6	1,966	31.1	211	3.3	376	6.0	897	14.2	2,614	41.4	251
1958	4,794	3,095	64.6	1,795	37.4	176	3.7	308	6.4	816	17.0	1,519	31.7	181
1957	3,936	2,848	72.4	1,556	39.6	162	4.1	280	7.1	848	21.6	955	24.3	133
1956	3,441	2,615	76.0	1,455	42.3	133	3.9	276	8.0	751	21.8	740	21.5	85
1955	3,096	2,403	77.6	1,427	46.1	119	3.8	296	9.6	561	18.1	597	19.3	97
1954	2,958	2,346	79.3	1,438	48.6	140	4.7	248	8.4	519	17.6	538	18.2	74
1953	2,759	2,162	78.4	1,330	48.2	173	6.3	259	9.4	400	14.5	517	18.8	80
1952	2,329	1,854	79.6	1,178	50.6	187	8.0	156	6.7	333	14.3	420	18.0	56
1951	2,253	1,802	80.0	1,186	52.6	174	7.7	93	4.1	350	15.5	400	17.8	50
1950	2,212	1,731	78.2	1,123	50.8	123	5.6	82	3.7	402	18.2	429	19.4	53
1949	1,840	1,366	74.2	928	50.4	67	3.6	76	4.2	295	16.0	410	22.3	64
1948	1,581	1,229	77.8	718	45.4	55	3.5	120	7.6	335	21.2	318	20.2	33
1947	1,549	1,302	84.1	614	39.6	63	4.1	65	4.2	560	36.2	199	12.8	48
1946	844	701	83.1	439	52.0	71	8.4	58	6.8	133	15.7	75	8.8	68
1945	917	700	76.3	410	44.7	79	8.6	103	11.3	108	11.7	87	9.5	130
1944	983	700	71.3	405	41.2	60	6.1	136	13.8	99	10.1	144	14.7	138
1943	991	691	69.7	396	39.9	30	3.1	171	17.2	94	9.5	174	17.6	126
1942	926	694	74.9	375	40.4	29	3.1	151	16.3	139	15.0	158	17.1	74
1941	915	624	68.2	330	36.0	26	2.8	113	12.3	156	17.0	171	18.7	120
1940	967	531	54.9	271	28.0	22	2.3	51	5.2	187	19.4	165	17.0	272
1939	1,031	446	43.2	247	24.0	15	1.4	50	4.8	134	13.0	192	18.6	393

Note: Includes Puerto Rico, Guam, and Virgin Islands. On basis of checks issued for years ending June 30.

^aExcludes shared revenues, payments in lieu of taxes, and grants for programs administered by the states as agents of the federal government.

Source: U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition, Part 2*, Washington, DC, U.S. Government Printing Office, 1975, p. 1125.

these changes marked the maturing of the categorical aid system and its recognition and widespread acceptance as a major instrument of national policy. At the same time, growing administrative tensions among the governmental levels became apparent.

After the dramatic developments of the Depression, the Second World War brought a notable slackening of intergovernmental ties while the nation took to arms. Federal aid to state and local governments averaged only \$947 million from 1939 through 1946—less than half of the New Deal peak. Still, as *Table I-5* indicates, the areas of public assistance, health, and education experienced modest growth and highway aid lagged.

The war years did see the development of a number of defense-related grants-in-aid. These, like the emergency programs enacted during the Depression, were terminated when peace returned (see *Table I-6*).⁴³ Other ongoing programs were redirected to meet the emergency. For example road grants were used to improve access to military establishments or for the strategic highways network.⁴⁴

The post-War period was marked by a steady accumulation of new grant programs and a substantial increase in intergovernmental revenue transfers, although the rate of increase was small by comparison with the Depression jump. In 1950 the dollar magnitude of aid surpassed the New Deal high; this figure was doubled by 1958 and nearly redoubled by 1963. Some of this increase, however,

was illusory—a reflection of the diminishing dollar value and the growth in population. Furthermore the increases over the period 1942-58 merely kept pace with the growth of the economy, with federal payments to state and local governments holding roughly constant at about 1% of the gross national product (GNP). This figure increased to 1.4% in the years 1959-62.⁴⁵

Several of the most significant enactments of the post-War period added to the stock of urban-oriented programs, such as grants for airport construction (1946), urban renewal (1949), and urban planning (1954). After 1952 local governmental revenue from the national government, which had fallen sharply during the War years, reached and subsequently surpassed its New Deal peak. This pattern persisted into the early 1960s, with new programs established for open-space preservation (1961) and air pollution (1963), among others.

The most significant innovation of these years in fiscal terms was the *Highway Act of 1956*, which established the interstate highway system. The federal government provided 90% of the cost of the road construction program, which was justified in part on the basis of defense needs. As a consequence of the *Highway Act*, highway assistance doubled as a proportion of federal aid between 1956 and 1960 (from 21.5% to 43.0%) and, in dollar terms, grew nearly 300% over the same period. This and other changes are illustrated in *Graph-1*.

The low level of the nonfederal contribution to the interstate highway program pointed toward

Table I-6
**WWII-Related Grants-in-Aid to State and Local Governments
Subsequently Terminated, 1941-44**

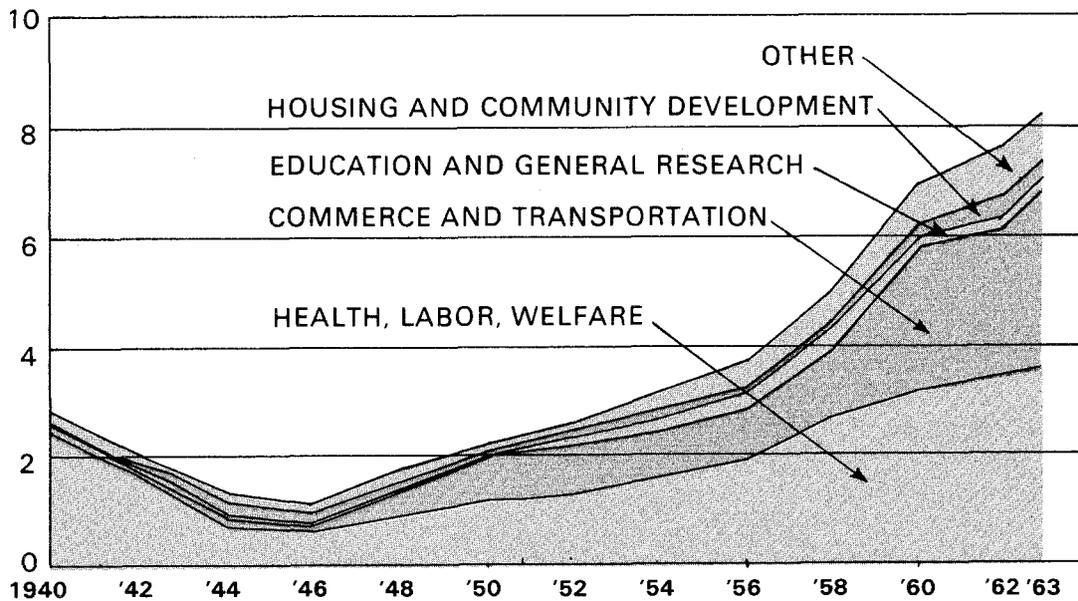
Program	Administering Agency	Fiscal Year Established	Last Payment Made	Amount of Grant in Highest Year
Supply and Distribution of Farm Labor	Dept. of Agriculture	1943	1948	\$ 9,861,383
Maternal & Infant Day Care	Fed. Security Agency	1944	1948	45,012,000
Emergency War Flight Strips	Fed. Works Agency	1943	1948	4,613,000
Education and Training of Defense Workers	Fed. Security Agency	1941	1945	131,241,000

Source: ACIR, *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments*, Washington, DC, Advisory Commission on Intergovernmental Relations, June 1961, p. 20.

GRAPH I-1

Federal Grants-In-Aid To State and Local Governments, by Major Functional Categories
1940-63

BILLIONS OF DOLLARS



Source: ACIR Fiscal Balance in the American Federal System, Vol. 1 (A-31) (Washington, D.C.: U.S. Government Printing Office, 1967), p. 147.

another important development: the reduction of and greater variety in matching requirements. Before the New Deal program costs were typically either shared on a 50-50 basis or, in a few cases, were assumed entirely by the national government. During the 1950s and 1960s, however, low-match programs became increasingly common and matching ratios became more varied.

Grant relationships became a source of increasing attention in the post-War years as the federal government became self-conscious about the changing patterns of federalism. A 1949 study by the Hoover Commission charged that the aid system was developing in a "haphazard manner." In contrast the 1955 report of the Commission on Intergovernmental Relations (Kestnbaum Commission) provided philosophical support for the growing system of categorical aid, marking its formal acceptance by a conservative administration.⁴⁶ However, the managerial and policy problems of aid relationships were taken more seriously. These concerns led to the designation by President Dwight D. Eisenhower of a deputy assistant for intergovernmental relations, the creation of the Joint Federal-State Action Committee, and, in 1959, the establishment of the Advisory Commission on Intergovernmental Relations (ACIR).

THE CATEGORICAL EXPLOSION: 1964-68

The categorical assistance system grew at a much more rapid rate after 1963. Moreover many programs enacted during the Johnson administration had different features from those of the previous period. At the same time concern about the direction and administrative implications of federal in-

volvement in state and local affairs became far more pointed and widespread.

The 1967 ACIR study, *Fiscal Balance in the American Federal System*, provided an overview of federal assistance toward the end of this period. Recent developments in the grant-in-aid system were described, including:

- a proliferation of grants;
- an expanding use of project grants;
- an increasing variety of matching ratios;
- the development of incentive grants;
- the development of multifunctional grants;
- a diversification of eligible grant recipients;
- increasing grants to urban areas;
- inflexibility of administrative and fiscal requirements;
- an expansion of planning requirements; and
- variation in regional office structures.

Grant Proliferation

The most striking departure from the past was the rapid increase in the number of grants, especially project grants. As indicated in *Table I-7*, some 109 grant authorizations were enacted in 1965 alone, with 90 (or 83%) of the project variety. By January 1967 the total number of grant authorizations stood at 379.

This growth continued in the following years. The *Catalog of Federal Domestic Assistance* for 1969 listed 581 domestic assistance programs. However this total included a number of direct federal activities, technical assistance and information services, and aid to individuals, private organizations, and businesses, as well as grants-in-aid to state and local governments.

Table I-7
Number of Grant-in-Aid Authorizations, 1962-66

Date	Formula Grants	Project Grants	Total
Cumulative through 1962	53	107	160
Added, 1963 ^a	8	13	21
Added, 1964 ^a	10	30	40
Added, 1965 ^a	19	90	109
Added, 1966 ^a	9	40	49
Total as of Jan. 1, 1967	99	280	379

^aThe net change from the preceding line reflects expiration or repeal of earlier authorizations as well as addition of new authorizations.
Source: ACIR, *Fiscal Balance in the American Federal System*, Washington, DC, U.S. Government Printing Office, 1967, Vol. 1, p. 47.

Table I-8
Federal Aid to State and Local Governments, Fiscal Years 1963-69, By Function
(In Millions of Dollars)

	1963	1964	1965	1966	1967	1968	1969
050 National defense	\$ 40	\$ 35	\$ 33	\$ 25	\$ 27	\$ 28	\$ 34
150 International affairs	7	4	4	6	7	6	6
300 Natural resources, environment, and energy	170	175	190	236	267	361	360
350 Agriculture	464	599	517	368	427	548	769
400 Commerce and transportation	3,075	3,710	4,100	4,074	4,147	4,351	4,421
450 Community and regional development	271	522	689	804	955	1,388	1,664
500 Education, training, employment, and social services	669	806	981	2,354	3,752	4,588	4,535
550 Health	450	527	624	1,241	1,574	2,705	3,193
600 Income security	3,246	3,502	3,530	3,577	3,770	4,262	4,804
700 Veterans benefits and services	8	8	8	9	10	13	14
750 Law enforcement and justice	—	—	—	1	3	11	28
800 General government	—	32	13	26	26	43	48
850 Revenue sharing and general purpose fiscal assistance	194	220	214	238	274	294	379
TOTAL	\$8,596	\$10,141	\$10,904	\$12,960	\$15,240	\$18,599	\$20,255
ADDENDUM							
Federal aid as a percentage of total budget outlays	7.7%	8.6%	9.2%	9.6%	9.6%	10.4%	11.0%

Source: Office of Management and Budget, *Federal Government Finances*, Unpublished Tables, January 1976, Table 13.

Federal assistance in dollar terms more than doubled between 1963 and 1969, rising from 7.7% to 11.0% of all federal budget outlays and from 1.5% to 2.2% of GNP. As *Table I-8* indicates the most substantial increases were in three major functional areas: education, training, employment, and social services; health; and community and regional development.

Program Continuation

Nearly all the new grants were in addition to previously established programs. The record up to 1961 clearly indicated that once created, very few grants are discontinued. ACIR's study, *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments*, suggested that the common statement that "once a federal grant begins, it never ends" should be amended to state "hardly ever ends."⁴⁷ Only 14 programs that had been terminated could be identified, and most of these were emergency Depression programs or were related to the World War II mobilization and, therefore, did not support any continuing function or service of state and local government. This high degree of continuity is all the more remarkable because the termination or tapering off of a dozen or more major assistance programs had been proposed during the 1950s.⁴⁸

One breakthrough in 1966 was the creation of a block grant under the *Partnership for Health Act*. Sixteen previous health categoricals were consolidated into two much broader programs. Under the *Omnibus Crime Control and Safe Streets Act of 1968*, a second block grant was established in a new area of federal activity, rejecting the alternative of several categorical grants.⁴⁹ These two actions, however, were clearly exceptional.

Political analysts commonly explain the longevity of federal grants by noting that programs, once established, acquire a constituency that makes their discontinuation, merger, or modification difficult. These constituencies are composed of not only the beneficiaries of a program, but also other affected interests, including the professionals and administrators at all levels of government who are involved in the delivery of services.⁵⁰

Congressional interest in the operation of existing programs has been weaker than its concern for the development of new initiatives. The oversight process is hampered by both a lack of resources (especially staff, although conditions in this area

have improved greatly in the past few years) and a lack of motivation (in most instances, little political benefit is to be gained from thorough program evaluations).⁵¹ These two factors have inhibited the review and termination (or even large-scale revision or consolidation) of categorical grants in many functional areas.

Innovative Features

A number of features differentiated the newer grant programs of the 1960s from those of the past. One aspect was the increasing variety of matching ratios. The earliest grant programs most often had provided for matching on a dollar-for-dollar basis or, in a lesser number of cases, had required no recipient match. During the 1960s both practices were quite common, but, as *Table I-9* indicates, a wide variety of other matching ratios also were adopted. In addition matching provisions could be altered in a few programs to provide a special financial incentive to recipients for exceeding certain minimum standards in program performance.⁵²

Although a theoretical rationale for the use of high- or low-matching ratios could be inferred in some cases, Congressional committee reports for most grants did not indicate the reason for the level of matching selected. Even closely related programs in a single functional area often had different matching requirements, raising serious questions of equity and consistency.⁵³

Another important development was the creation of multifunctional grants. Similar to the two block grants, these programs departed from the categorical tradition because they were programmatically broad and flexible. Some of these grants focused on the needs of specific areas; examples are the Appalachian Regional Development program and the Model Cities program.⁵⁴ Others sought to provide a range of services to a particular clientele, such as the *Juvenile Delinquency and Youth Offenses Control Act*, the *Older Americans Act of 1965*, and the *Economic Opportunity Act*.

The recipients of assistance increasingly became diversified. Traditionally federal aid was allocated to state agencies; however, since 1937 and the initiation of the public housing program, a continuing federal-local link has existed. By 1970 more than 72 grant programs could be identified in which federal payments were made directly to units of local government.⁵⁵ Fiscally these programs accounted for about 12% of all grant funds. Although state involve-

Table I-9

**Matching Ratios, Existing Programs of Grants-in-Aid to State or Local Governmental Units in 1968,
as of Period of Origin**

Federal Participation	Number of Programs					1964-1968	Total
	Before 1910	1911-1918	1919-1932	1933-1938	1939-1963		
20						1	1
25					1		1
30					2	1	3
33						1	1
33-40						1	1
33-67				1	6	4	11
50	2	5	2	4	29	33	75
50-67						1	1
50-70						1	1
50-75					2		2
50-80					1	2	3
50-83				3	2	1	6
50-90						2	2
50-100					2	1	3
67					5	12	17
67-75					2	1	3
75				3	6	14	23
80						6	6
90					4	16	20
91						1	1
100	2	2	1	2	65	76	148
Some local			1	2	12	12	27
Part or all					7	11	18
Declining					1	11	12
Variable					1		1
TOTAL	4	7	4	15	148	209	387

Note: For additional detail and explanatory notes, see the source table.

Source: Adopted from ACIR, *Fiscal Balance in the American Federal System* (A-31), Washington, DC, U.S. Government Printing Office, Vol. 1, pp. 156-58.

ment varied, in many programs they were bypassed completely.⁵⁶ This approach was held by its advocates to be necessary because of state incapacities in dealing with urban problems.⁵⁷

An extensive system of "private federalism" also emerged, involving grants to individuals, non-profit organizations, and specialized public institutions (such as universities). One significant example was the network created under the *Economic Opportunity Act* of community action agencies, which were intended to coordinate a comprehensive attack on the causes of poverty. The bulk of payments of this type were made by the U.S. Department of Health, Education and Welfare (HEW); only 10% of HEW's project grant programs had eligibility restricted to state and local governments.⁵⁸

The flow of federal funds into urban areas rose sharply, reflecting increased allocations for housing and community development, education, and other programs aimed at meeting the needs of the disadvantaged. Total federal aid outlays in metropolitan areas more than tripled between 1961 and 1969, as *Table I-10* indicates, and grew to include about 70% of all assistance, an increase from 55% in 1961 and 1964.

Planning requirements were included in many of the programs of the 1960s. More than 100 programs had some sort of mandatory planning procedures by 1969. The majority of these called for state plans in particular functional fields, but some required projects to conform to an areawide comprehensive or functional plan. Federal assistance for planning also was offered in 36 grant programs from 11 agency sources.⁵⁹

Complaints: The Rising Chorus

Along with the expansion of the grant system and the use of new procedures came a rising chorus of complaints from state and local officials. Inflexibility of fiscal and administrative requirements and differences in program requirements were among the recipients' primary objections. An information gap arose because grantees found it difficult to keep up with the host of new federal programs and procedures. At the same time a concern regarding the need for improved coordination among programs grew within the federal establishment and particularly in the Bureau of the Budget.⁶⁰ Administrative difficulties were revealed in the relationships between federal headquarter agencies and the field offices. Between 1962 and 1965 four new systems of

regional offices were established as a consequence of grants-in-aid legislation. Adding these bodies to the separate, already existing regional structures brought the total number of regional systems to 12. Regional boundaries and field office locations varied widely; Kentucky, to cite the most extreme case, had to deal with federal agencies in ten different cities. This confusion imposed burdens on the recipients of grants and also made the task of coordinating operations by federal agencies in pursuit of national objectives more difficult.⁶¹

The New Direction

James L. Sundquist, the author of a landmark study in intergovernmental relations, tied together a number of the foregoing developments, which he interpreted as reflecting changes in the character of federal assistance programs. Before 1960, Sundquist suggested, the typical grant was instituted to assist state or local governments in accomplishing their own objectives. Aid for such established functions was typically on a 50-50 matching basis. Federal administrative controls could be fairly loose, because recipients were expending large amounts of their own resources; most federal agencies viewed their role as one of technical assistance rather than control. Grants were typically of the formula variety.⁶²

In contrast, Sundquist stated, the programs of the 1960s sought to move state and local governments into new fields in response to a national need. For this reason the programs were regarded as primarily federal in nature, although they were executed locally as a matter of political necessity and administrative convenience. Closer federal administrative control accordingly was required, and applications were often approved on a project-by-project basis. Recipient matching requirements were lowered or entirely eliminated as an inducement to participation.⁶³

Although this interpretation is useful because it shows the relationship among a number of grant features, its description of some older aid programs is not accurate. A Congressional concern with the national interest and efforts to secure it through restrictive grant provisions and close federal supervision predated the 1960s. As the brief history presented here indicates, many of the conditions and requirements found in modern grants had their origins in the World War I era. Even some of the oldest grants sought to encourage state and local

Table I-10
Federal Aid Outlays in SMSAs, 1961-69
(In Millions of Dollars)

Function and Program	1961 Actual	1964 Actual	1969 Actual
National Defense	\$ 10	\$ 28	\$ 30
Agriculture and Rural Development:			
Donation of surplus commodities	128	231	313
Other	27	40	104
Natural Resources and Environment:			
Environmental protection	24	8	79
Other	30	10	101
Commerce and Transportation:			
Economic development	—	158	104
Highways	1,398	1,948	2,225
Airports	36	36	83
Urban Mass transportation	—	—	122
Other	1	5	5
Community Development and Housing:			
Funds appropriated to the President	—	—	432
Urban renewal	106	559	786
Public housing	105	136	257
Water and sewer facilities	—	36	52
Model Cities	—	—	8
Other	2	17	75
Education and Manpower:			
Elementary and secondary	222	264	1,262
Higher education	5	14	210
Vocational education	28	29	179
Employment security	303	344	449
Manpower activities	—	64	530
Other	3	7	333
Health:			
Health services and planning	48	66	109
Health services delivery	47	82	219
Mental health	4	8	77
Medical assistance	—	140	1,731
Health manpower	—	—	107
Other	—	4	54
Income Security:			
Vocational rehabilitation	37	61	247
Public assistance	1,170	1,450	3,022
Child nutrition, special milk and food stamps	131	168	482
Other	3	16	148
General Government:			
Law enforcement (including law enforcement revenue sharing)	—	—	17
National Capital region	25	38	85
Other	—	9	27
Other Functions	—	2	—
Total Aids to Urban Areas	\$3,893	\$5,588	\$14,045

Source: Office of Management and Budget, *Special Analyses, Budget of the United States Government: Fiscal Year 1974*. Washington, DC, U.S. Government Printing Office, 1973, p. 219.

governments to enter into what were at the time largely new activities, although these activities are now among the traditional subnational services. V. O. Key, Jr.'s 1937 report, *The Administration of Federal Grants to States*, offered this description of the earlier pattern:

A few states have established a service, and Congress enacts legislation designed to lead to the assumption of that function by all the states. Or, as in the case of highways, there may be a peculiar national interest in expanding and reorienting an older function. In both instances the purpose may be sought through state action as an alternative to direct federal action. In any case considerable national guidance of state action is likely. . . . A federal grant act is thus not markedly dissimilar from legislation establishing a direct federal service. . . . The states become, in effect, although not in form, agents of the central government in the prosecution of activities deemed by Congress to be clothed with a national interest.⁶⁴

The Kestnbaum Commission, which produced the first comprehensive study of the grant system in 1955, also indicated that the national purpose concept had always been influential:

The national government has used the grant-in-aid primarily to achieve some national objective, not merely to help states and local governments finance their activities. Specific objectives have been as varied as getting the farmer out of the mud, assisting the needy aged, providing lunches for school children, and preventing cancer. As a condition of financial assistance the national government establishes requirements and provides administrative supervision.

The trend has been toward sharper definition of objectives, closer attention to conditions and requirements, more extensive administrative supervision, and, recently, greater attention to relative state fiscal capacity.⁶⁵

Earl M. Baker suggests that the pressure for many of the earliest grants came from the states,

including the Morrill, Hatch, Smith-Lever, and highway aid acts enacted from 1862 to 1916. Many later programs, he argues, were generated by political interests that had been largely unsuccessful in obtaining desired actions at the state level. The *Sheppard-Towner Act* (1921) is a case-in-point, as were many of the New Deal programs. After World War I, Baker indicates, grants were viewed increasingly as instruments for achieving national goals, and the imposed conditions seemed more and more coercive to the states partly because they reflected externally imposed objectives.⁶⁶

Sundquist is certainly correct in asserting that the mix of program types changed in the 1960s.⁶⁷ Federal-local grants were used increasingly; most were directed at urban areas and sought to encourage local governments to assume responsibility for new and additional community services that were often intended to benefit the disadvantaged. These programs were of the project, rather than formula, type, and federal administrative strings were significant. Several major programs were pioneering efforts, i.e., states and local governments were to provide services that were entirely new within their jurisdiction and new in the nation-at-large. Legislative goals were multiple and sometimes conflicting, and the means for accomplishment in fields such as remedial education, regional development, mental health, job training were by no means certain.

Because of this newness and a lack of awareness of jurisdictional differences and capabilities, the federal government often was willing to entrust program responsibility to any entity, public or private, that held promise of doing the necessary job. This approach ignored traditional administrative relationships, making "coordinate" a watchword of the decade. The difficulties posed by the operation of these new-style programs, in turn, set the stage for the greater use of block grant and revenue sharing programs, as well as important administrative reforms, in the years that followed.

THE SEARCH FOR A "NEW FEDERALISM:" 1969-75

The Nixon Administration, coming to power in 1969, moved forward in the search (initiated toward the end of the Johnson presidency) for alternatives to and improvements of the categorical grant system. Emphasis was placed on broader, more flexible grant forms: general revenue sharing and, later, special revenue sharing. The first

real legislative success appeared with passage of the *State and Local Fiscal Assistance Act of 1972*. Compromise block grants emerged from the Congress with programs established in the manpower field (1973), community development (1974), and social services (1974). These were added to the previous block grant programs for public health and criminal justice created in the 1960s.

Despite these major innovations, important continuities also existed. Many trends that had appeared in previous years persisted. Categorical programs continued to increase and to fiscally predominate. Total spending for intergovernmental aid rose substantially, doubling during the Nixon years and increasing an additional 50% during the Ford period. The aided activities shifted somewhat and broadened to embrace new fields. Red tape, as in the past, was a source of federal-state-local friction, although the greatest problem was posed by regulations intended to achieve new national objectives in fields such as equal employment and environmental protection, rather than by program requirements per se. Another concern, pressed with even greater fervor than in the past and partly related to the advent of new block grants and general revenue sharing, involved the distribution of aid among recipients, focusing especially on the design of grant formulas.

Varied Assistance Forms

The most important and certainly the most publicized developments in intergovernmental aid during this period were the adoption of general revenue sharing (GRS) as well as three additional block grants. Two block grants were formed by the consolidation of previous categorical programs; the third, established by amendments to Title XX of the *Social Security Act*, substantially increased the authority of states to provide social services in accordance with local needs. This era, therefore, represented a shift in assistance strategy—from exclusive reliance upon categorical aid toward a more balanced, tripartite (categorical, block and GRS) system. Although the new, more flexible programs received the greatest attention, categorical programs remained the dominant type of aid in fiscal terms. In 1975 categoricals still accounted for an estimated 75% of federal assistance, as indicated in *Table I-11*, and their number had increased by at least 100 since 1969.

Difficulties in securing the passage of block grant legislation reconfirmed the political obstacles to large-scale grant consolidations. Only two of the Nixon Administration's six special revenue sharing proposals, which together would have merged 129 programs into block grants for law enforcement,

Table I-11
Federal Aid by Category, Selected Fiscal Years, 1966-75
(In Millions of Dollars)

Category	1968	1972	1974	1975
Revenue Sharing	— (—)	— (—)	\$ 6,106 (13%)	\$ 6,130 (12%)
General Support Aid ^a	\$ 294 (2%)	\$ 490 (1%)	624 (1%)	841 (2%)
Block Grants ^b	57 (—)	415 (1%)	3,334 (7%)	5,393 (11%)
Specific Purpose Grants ^c	18,248 (98%)	35,035 (97%)	35,976 (78%)	37,359 (75%)
Total Federal Grants	\$18,599 (100%)	\$35,940 (99%)	\$46,040 (99%)	\$49,723 (100%)

^aIncludes federal aid to state, local, and territorial governments that is available for general fiscal support or is available for distribution among programs involving two or more budgetary functions when the distribution among those functions is at the discretion of the recipient jurisdiction. The types of aid included are payments in lieu of taxes, broad-purpose shared revenues, and the federal payment to the District of Columbia.

^bIncludes total for block grants (*Partnership in Health Act* (PHA) (1966), *Safe Streets Program* (LEAA) (1968), *Social Security Act Amendments* (SSA) (1972), *Comprehensive Employment and Training Act* (CETA) (1973), and *Community Development* (CDBG) (1974)) although a portion may be granted for specific projects under the discretionary allocation provided for by statute. Also where outlay data are not available, obligations have been used and adjusted where additional information is provided. The *Social Services* amounts included begin with 1974 when formula allocation of funds was provided.

^cIncludes target grants like Model Cities and the Appalachian Regional Commission program.

Source: Office of Management and Budget, *Special Analyses: Budget of the United States and Budget Appendix*, Washington, DC, U.S. Government Printing Office, various years.

education, manpower training, transportation, rural community development, and urban community development, were enacted. Both were adopted in block grant form, with more programmatic and administrative strings being added than were contemplated in the administration's original draft proposals. Both consolidations also were less than comprehensive: the community development program (*Housing and Community Development Act of 1974*) eliminated only six previous Department of Housing and Urban Development (HUD) programs, while the manpower act (*Comprehensive Employment and Training Act of 1973*) folded 17 programs into one but did not affect 47 other separate manpower categorical grants. Four additional block grant proposals advanced by President Gerald R. Ford in 1976, affecting 59 narrow-purpose grants, were largely ignored by the Congress, in part because they adhered generally to the earlier special revenue sharing (next-to-no-strings) format.

Adopted in 1972 GRS was viewed by most as a supplement to, rather than a substitute for, categorical assistance. In contrast some early advocates had expected that other aid programs would be cut back when a revenue sharing program was developed. No explicit trade-off of this type was made, although GRS did absorb nearly all of the growth in grant outlays that might have been expected in 1973.

Throughout these years the number of categorical grants continued to mount. However because of a lack of accurate monitoring and the use of imprecise and inconsistent definitions of a grant, the number of these aid programs was frequently exaggerated—as high as 1,000 to 1,600 by various commentators. Specific-purpose monetary grants-in-aid for state and local governments in fact, numbered 442 in 1975, according to an ACIR tabulation.

Despite the few well publicized consolidations and various attempted administrative reforms, most old problems of fragmentation continued unrelieved. A 1975 report of the Comptroller General concluded that:

... fundamental problems in providing assistance continue and are directly attributable to the proliferation of federal programs and the fragmentation of organizational responsibilities.⁶⁵

Future directions were uncertain. Whether the changes in federal relations instituted under New Federalism policies will become permanent features

of the American system, or instead will succumb to the pressures for categorization that have been dominant traditionally, can not be foretold. Revenue sharing was renewed in 1976 but only after a difficult political struggle. In the same year the crime control block grant also was renewed, but it too received a detailed and critical review and lost some flexibility. The manpower and community development block grant programs faced reauthorization in 1977. Projections made by the Congressional budget office in 1976 suggest that if current policy levels are maintained, categorical programs will increase slightly their share of the federal aid dollar by 1981.⁶⁶

Continuing But Decelerating Growth

Grants-in-aid in absolute dollar terms continued their previous rapid growth rate in the early 1970s. Indeed in both of the five-year periods 1965-70 and 1970-75, total grants more than doubled, attaining a sum of nearly \$50 billion.

By many comparative measures, however, the growth of federal assistance to state and local governments was at a lower, decelerating rate in 1970-75 than in the "go go" years of the 1960s, as *Table I-12* indicates. One factor was the high rate of inflation, which diminished the value of grant dollars; the real increase in aid was 54% in 1970-75, not 107%. The rates of aid growth in relation to total budget outlays, the GNP, and state-local expenditures also were somewhat lower in the later period.

Rates of change also varied markedly from year to year. Although the dollar increase of 22.26% in 1972 surpassed that of any year of the Great Society (see *Table I-13*), the increase in 1974 (just 3.53%) was the lowest since 1961. Using various comparative indicators of grant spending, absolute declines were registered after 1973 in grants as a percentage of total federal outlays, domestic outlays, and state-local expenditures.

The 1974 aid slowdown had serious fiscal consequences, according to some economists, because it coincided with increased local servicing burdens, which had been raised by the one-two punch of inflation and unemployment. George E. Peterson comments:

The abrupt slowdown in the growth of intergovernmental aid during 1974-75 forced the older cities back upon their own resources at just the moment these resources gave out because of the recession.

Table I-12

Federal Grants-in-Aid to State and Local Governments, for Five-Year Periods, 1965-70 and 1970-75

	(1)	(2)	(3)	(4)	(5)
		Total Federal Aid in Constant (1975) Dollars	Aid as Percentage of Budget Outlays	Federal Aid as Percentage of Gross National Product	Grants as Percentage Of State-Local Expenditures
Years	Total Federal Aid				
1965	\$10,904	\$17,145	9.2%	1.6%	15.3%
1970	24,018	32,239	12.2	2.3	19.4
1975	49,723	49,723	15.3	3.3	23.4
CHANGES					
1965-70	120%	88%	33%	48%	27%
1970-75	107%	54%	25%	44%	21%

Sources: (1) and (3) Office of Management and Budget, *Federal Government Finances*, Unpublished Tables, January 1976, pp. 51-53; (2) ACIR staff calculations based upon *Ibid.*, using implicit price deflators for personal consumption expenditures in 1975 dollars; (4) U.S. Department of Commerce, Bureau of Economic Analysis, *Benchmark Revision of National Income and Product Accounts: Advance Tables, March 1976*, and *Survey of Current Business*, Washington, DC, U.S. Government Printing Office, May 1976, ACIR staff computation; (5) Office of Management and Budget, *Special Analyses, Budget of the United States Government, 1977*, Washington, DC, U.S. Government Printing Office, p. 264.

The necessity of suddenly financing their own expenditure growth (including the wage increases demanded by workers originally hired under federal programs but for whom no more federal assistance was forthcoming) would have strained the cities' fiscal capacity under the best of circumstances. As it was, the simultaneous failure of local and intergovernmental revenue sources precipitated genuine fiscal distress.⁷⁰

Despite these fluctuations state and local governments ended the New Federalism era more dependent on federal assistance than they had been at its beginning. *Graph I-2* indicates the overall pattern of increasing dependency, while *Chart I-1* demonstrates that by 1976, federal assistance had become a more important source of revenue for state and local governments than their two traditional taxes—sales and property.

Broadening Purposes of Aid

Significant shifts in program emphasis were made during the early 1970s. In terms of the 13 functional

categories used by the Office of Management and Budget (OMB) to report on federal spending, four increased at a considerably more rapid rate than the total. In fact these four—natural resources, environment, and energy; health; law enforcement and justice; and revenue sharing and general purpose fiscal assistance—accounted for about 55% of the total dollar increase in aid during the five-year period 1970-75. Larger dollar increases but slower growth rates were registered in education, training, employment, and social services and income security, underscoring their rapid acceleration in previous years.

These shifts reflected a continuation of the long-standing trend toward the broadening of federal aid purposes. In 1960 just two expenditure categories—income security and commerce and transportation—accounted for 80% of all federal grants to state and local governments. This percentage declined steadily during the intervening years: 70% in 1965, 43% in 1970, and only 30% in 1975. At the same time federal involvement in many additional fields that had traditionally been dominated by subnational governments grew to noteworthy size. *Tables I-14* and *I-15* review this history.

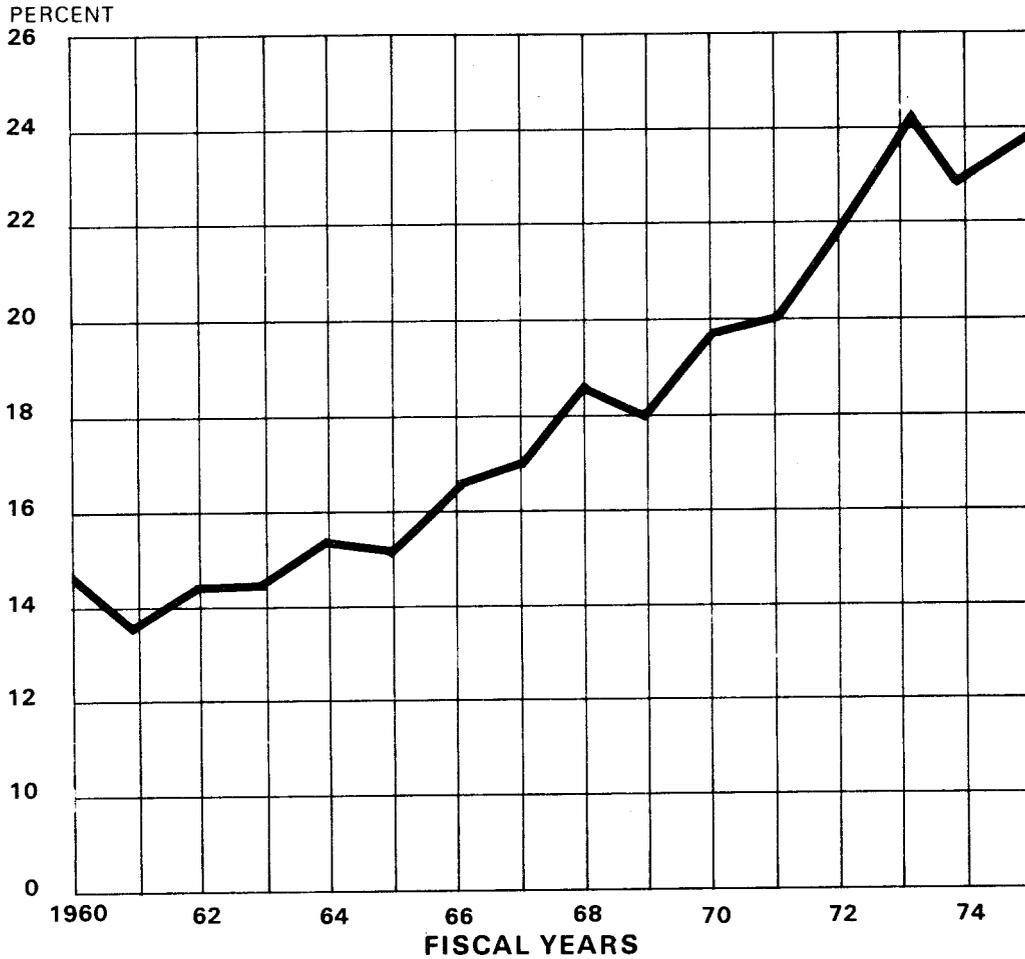
Table I-13
Annual Increase in Federal Aid, 1960-75

Year	Total Grants		Aid as Percent of Total Outlays	
	Billions of Dollars	Percent Annual Increase	Percentage	Percent Annual Increase
1960	\$ 7.02	—	7.6%	—
1961	7.11	1.28%	7.3	-3.94%
1962	7.92	11.39	7.4	1.36
1963	8.60	8.58	7.7	4.05
1964	10.14	17.90	8.6	11.68
1965	10.90	7.49	9.2	6.97
1966	12.96	18.89	9.6	4.34
1967	15.24	17.59	9.6	0.00
1968	18.60	22.04	10.4	8.33
1969	20.26	8.92	11.0	5.76
1970	24.02	18.55	12.2	10.90
1971	28.11	17.02	13.3	9.01
1972	34.37	22.26	14.8	11.27
1973	41.83	21.70	17.0	14.86
1974	43.31	3.53	16.1	-5.29
1975	49.72	14.80	15.3	-4.96

Source: Office of Management and Budget, *Federal Government Finances*, Unpublished Tables, January 1976, pp. 52-53, and ACIR staff calculations.

GRAPH I-2

Federal Grants as a Proportion of State and Local Expenditures

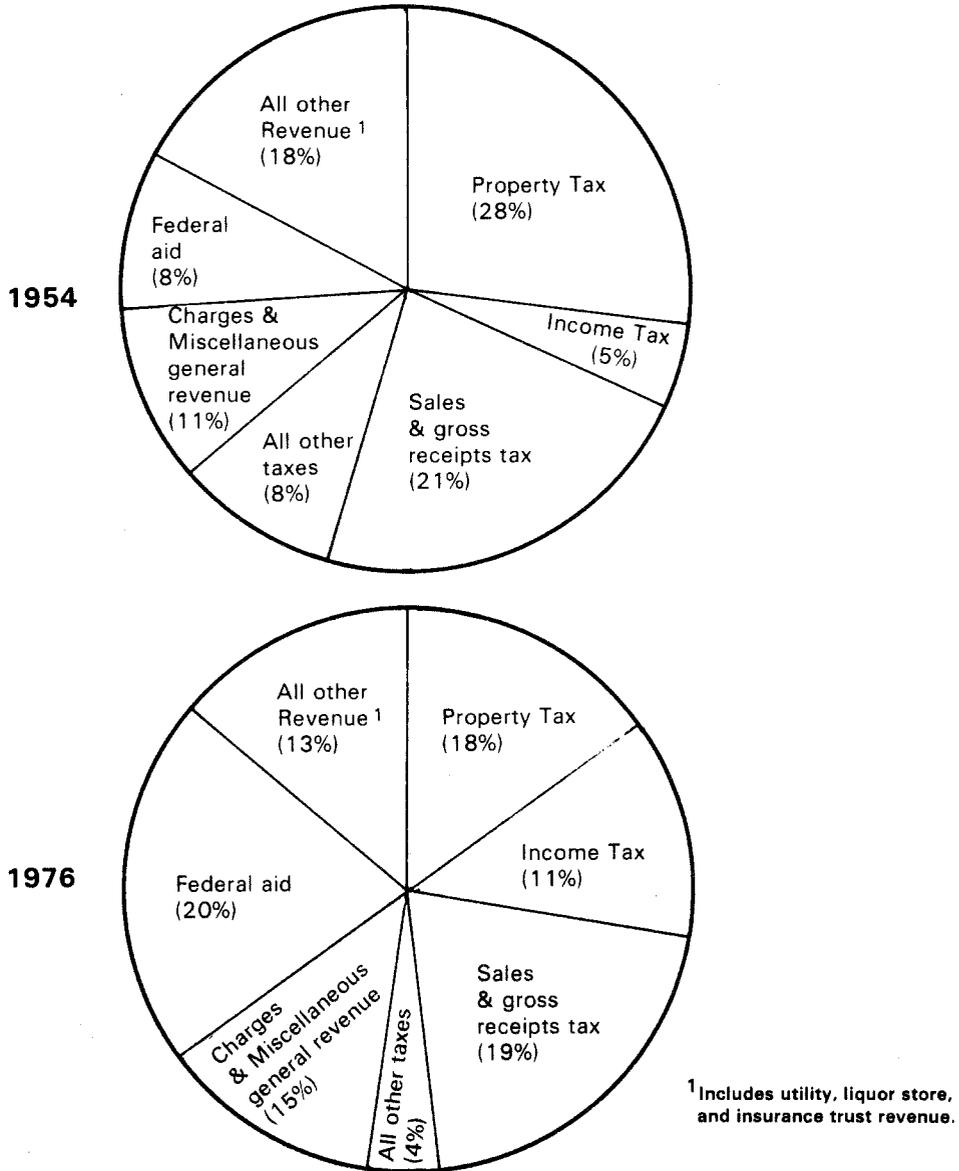


Note: Grants are defined as in the U.S. Budget. State and local expenditures derived from National Income Accounts.

Source: Congressional Budget Office, *Budget Options for Fiscal Year 1977: A Report to the Senate and House Committees on the Budget* (Washington, D.C.: U.S. Government Printing Office, 1976), p. 247.

CHART I-1

**The State and Local Revenue System
Becomes More Diversified with the Relative Decline
in Property Taxes and Relative Increase
in State Income Taxes and Federal Aid,
Fiscal Years 1954 and 1976**



Source: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1976 Edition*, Vol. 1, Trends (M-106), (Washington, D.C.: U.S. Government Printing Office, 1976), p. 34.

The adoption of GRS and, to some degree, the transformations wrought by the new block grant programs also signaled a new direction in the purposes of federal assistance. In earlier years aid had been widely regarded as appropriate only in those fields of distinct national interest or a clear national

purpose and was usually intended to be stimulative of additional public services at the state and local levels. For example the 1955 report of the Kestnbaum Commission concluded:

A grant should be made or continued only for a clearly indicated and presently important national objective. This calls for a searching and selective test of the justification for national participation.⁷¹

The major Great Society programs of the 1960s generally followed this principle, because they were directed at national objectives (although newly recognized ones in many instances) and were frankly intended to be stimulative, aiming at the development of new solutions to community problems.

GRS, on the other hand, was based on an altogether different premise. It was intended, in the minds of most proponents, to provide general fiscal support to state and local governments and to equalize, in some degree, the available financial resources. The fiscal burden of providing the most commonplace public services, therefore, was to be shared by the federal government. The federal income tax, because of its progressive nature and nationwide application, was regarded as a more desirable way to finance these services than by exclusive reliance on property, sales, and state or local in-

Table I-14

Percent Distribution of Federal Aid to State and Local Governments, By Function, Fiscal Years 1970 and 1975

Function	Percent of Total	
	FY 1970	FY 1975
Education, Training, Employment and Social Services	23.9%	23.4%
Income Security	24.2	18.7
Health	16.0	17.7
Revenue Sharing and General Purpose Fiscal Assistance	1.8	14.0
Commerce and Transportation	18.9	11.8
Community and Regional Development	10.1	6.7
Natural Resources, Environment, and Energy	1.9	5.0
Law Enforcement and Justice	0.2	1.5
Agriculture	2.6	0.8
General Government	0.2	0.2
Veterans Benefits and Services	0.1	0.1
National Defense	0.2	0.1
International Affairs	—	—

Source: Office of Management and Budget, *Federal Government Finances*. Unpublished Tables, January 1976.

Table I-15

Grant-in-Aid Outlays of \$1 Billion or More, By Function, Selected Years, 1950-75
(In Millions of Dollars)

Function	1950	1955	1960	1965	1970	1975
Income Security	\$1,335	\$1,715	\$2,648	\$ 3,530	\$ 5,813	\$ 9,279
Commerce and Transportation	—	—	3,001	4,100	4,545	5,872
Education, Training, Employment and Social Services	—	—	—	—	5,745	11,638
Health	—	—	—	—	3,831	8,810
Community and Regional Development	—	—	—	—	2,428	3,335
Revenue Sharing and General Purpose Fiscal Assistance	—	—	—	—	—	6,971
Natural Resources, Environment, and Energy	—	—	—	—	—	2,479
TOTAL	\$2,253	\$3,207	\$7,020	\$10,904	\$24,018	\$49,723

Source: Office of Management and Budget, *Federal Government Finances*, Unpublished Tables, January 1976, pp. 51-53.

come taxation. Moreover the proposal for GRS first received widespread attention during a period in the mid-1960s when large national budget surpluses were anticipated.

Similarly the use of the block grant device partially was premised on the idea that some supported activities were well established and predominantly of state and local concern, although the nation shared responsibility for part of their financing and for assuring their performance. In both types of programs, therefore, a shift occurred in rationale—from specific services toward more general fiscal and broad functional objectives.

The fact that many federal categorical programs embodied no consistent definition of the “national interest” also was being recognized. By 1976 identifying a single major state and local function in which the federal government was not involved was difficult. Charles L. Schultze observed:

Many federal categorical grants for restricted purposes . . . probably serve no major national purpose but simply reflect the substitution of the judgment of federal legislators and agency officials for that of state and local officials about what specific local services should be available.⁷²

In contrast to earlier periods, comparatively little opposition of a philosophical or constitutional nature to this extension of federal aid to new areas existed. The sharing of functions was accepted widely as inevitable, desirable, and traditional. The fiscal necessity of federal participation also was recognized widely. Moreover the United States was regarded increasingly, by citizens and public officials at all levels, as a single, cosmopolitan nation, in which the entire national community possessed some stake in the policies adopted and services provided throughout its territory.

Allocational Considerations

A number of factors combined to make distribution patterns of federal aid among recipient jurisdictions a matter of increasing concern after 1969, and especially in 1975-76. The decelerating and uneven aid growth rate was probably one factor. Fiscal stress at all levels was another. During the mid-1960s many observers generally assumed that pressing needs for financial assistance would be met by additional federal spending through new programs,

given projections of federal budgetary surpluses. But this fiscal dividend had disappeared by the early 1970s, meaning that one set of recipients often could increase their benefits only at the expense of others.⁷³

Several other considerations existed. By 1976 the distribution of assistance overall was achieved by many standards, arbitrary or even perverse. For example despite the common belief that grants should help improve services of the poorer state and local governments, no consistent policy of equalizing fiscal capacities has been followed. Over recent years federal aid has been mildly equalizing at best, while in 1975 the highest income states were actually the recipients of the most grant funds per capita.⁷⁴

Also underlying the allocation issue were the significant differences in the economic viability of cities and state governments in various parts of the nation. Older central cities in the declining northeast were generally in the most severe fiscal straits. On the other hand parts of the south and west seemed to be enjoying increasing prosperity.

Most fundamentally the allocation issue reflected one weakness of the new-style grants that was nonexistent in the older project aids. The federal-local formula grant programs inaugurated during this period posed considerable difficulties in specifying appropriate recipients and identifying satisfactory statistical measures of the need for funds.⁷⁵ Conflicts emerged involving state-local relations and a competition for limited resources among local governments.

Given the large dollar magnitude of these formula programs, political pressures arose for the entitlement of a large number of local jurisdictions. In the instance of GRS, eligibility was given to every unit of general purpose local government (some 38,000) in addition to the states. Other block grant programs gave a number of counties important and generally new roles, while the number of municipalities receiving aid also was expanded. At the same time assistance appeared to be reduced in these program areas to the larger central cities, which had fared well in the project grant competition. Aid outlays in metropolitan areas in 1975 were about 70% of the grant total, equal to their share in 1969.⁷⁶ Political tensions developed as a consequence, with critics claiming that local units were receiving amounts of aid that were too large relative to their size, needs, and frequently suburban character. Yet many spokesmen for rural areas and smaller cities also believed that their interests had been neglected.

These conflicts were sometimes constrained from open expression, however, by the need to maintain the appearance of state-local unity to assure program continuity in the face of Congressional critics.

Maintaining a low profile was not the case with a growing conflict among major regions of the nation, the "sunbelt" and "frostbelt," that emerged during 1976. The fiscal distress suffered by New York and some other northeastern states and their cities, contrasted to the growing prosperity of the "new south," produced heated demands for the redistribution of federal aid and the redesigning of grant formulas. The potential for serious political and economic rivalries appeared, with some observers even predicting the outbreak of an economic "second war between the States."⁷⁷

Red Tape and Bureaucracy

Red tape and bureaucracy were as real as concerns of the 1970s as they were in the 1960s, when state and local opposition to federal administrative practices had been strongly voiced. Yet many procedures intended to simplify, coordinate, and decentralize the operation of grant programs were in place. Although some successes had been realized, implementation was uneven and incomplete.⁷⁸ Consequently, much stress was placed on the need to put greater authority and commitment behind the management activities of the Office of Management and Budget and the federal regional councils.

Although intended to simplify aid administration, some block grants were found to have created red tape jungles of their own. Complicating elements were new layers of decisionmaking at the state and substate levels and new procedures for encouraging systemwide coordination and generalist control.

In contrast to the past, however, the greatest concern in the 1970s was not with restrictions on the use of federal funds or differences in program requirements. Governmentwide requirements—not directly germane to the purpose of the grants but intended to advance some other national objective—were now new sources of delays, confusion, costs, and controversy. These requirements generally applied to the more flexible grant programs as well as to the categorical ones. State and local personnel actions came under close scrutiny for signs of discrimination in the employment of women, minorities, and the handicapped. Required reports sometimes involved thousands of pages, and grant recipients were faced with conflicting standards, depending upon

the grantor agency. Environmental regulations, citizen participation requirements, prevailing wage standards, and other grant conditions, although well intended, frequently proved to be a source of hardship and conflict at the delivery level.

Resolution of these problems also posed new difficulties. New actors were involved. For the most part, OMB, the President's chief staff agency, played a small role because authority in these areas was vested in other organizations or in each department. Management improvement alone seemed to many observers to offer little promise of relief; instead, remedial legislative amendments appeared necessary. These procedures also drew the judicial branch with increasing frequency into areas of federal-state-local relationships.

The weight of federal regulation was felt, in varying degrees, throughout the nation. The automatic entitlement features of the new federal-local programs meant that many new recipients, with little or no previous grant program experience, were subject to certain national standards. Essentially every general purpose local government came under some national oversight as a consequence of almost universal eligibility for GRS and especially of the procedural constraints imposed by its 1976 reenactment; in this respect, the program was centralizing, despite its decentralizing objectives. Almost all public (and private) educational institutions were, indirectly if not directly, recipients of federal support and, therefore, subject to a range of federal requirements. The conflicts engendered gave an ironical twist to an old phrase, "cooperative federalism," and yet the traditional means for resolving these tensions—a refusal to accept funds and the attached conditions—was unrealistic, given the continually increasing fiscal and programmatic interdependency among the levels of government.

Growing Skepticism

In comparison with the confidence regarding the efficacy of federal social intervention via grants-in-aid that had marked previous years, the 1970s were notable for a growing attitude of skepticism. Doubts regarding program effectiveness were added to the past concerns of administrative efficiency and economy. This new mood was revealed plainly in the subtitle of a widely read book on intergovernmental relations: *How Great Expectations in Washington Are Dashed in Oakland; Or, Why It's Amazing That Federal Programs Work at All.*⁷⁹

One source of this concern was the growing recognition that federal influence over state and local governmental operations, at best, is limited and imperfect. Every level of government in the American system possesses a considerable degree of autonomy. Thus the ability of the national government to implement its domestic policies through subnational jurisdictions depends heavily upon political leadership at the state and local levels, over which it has small influence and is constrained by state and local weaknesses in organization, jurisdictional fragmentation, and management capacity, which again lie largely outside its control. These liabilities are added to its own internal management weaknesses. Too often in the past potential problems in program execution in a multilevel federal system were neglected during the legislative drafting stage. The gap between intentions and results had become a mighty chasm.

Uncertainties about the sources of, and likely remedies for, many serious social problems also were a contributing factor to the skeptical attitude. Formal, careful evaluations of program results—practically unknown previously—were commonplace in the 1970s, but many pointed to a discouraging conclusion: no demonstrable improvement. The Urban Institute's President, William Gorham, and sociologist Nathan Glazer, commented in 1976 on the resulting loss of faith:

There is less consensus on the ultimate causes of many serious urban problems, and even less consensus on the measures that would ameliorate them, than there was in 1966, or in 1956. Confidence in our ability to frame solutions has declined as understanding of problems has grown. As explanations have become more tentative, so the proposals put forth these days are more modest than the programs launched with such high expectations in the 1960s. One can say—at least about the domestic sphere of government action—that we now know more than we did but, deprived of our hubris, are less confident in our ability to shape a future as we will. Our national mood is different in 1976.

But, despite the wariness about government intervention that has emerged, it is clear that something beyond the complex structure of federal aid that has been built and rebuilt since the early 1960s is going to be necessary.⁸⁰

There also was increasing recognition that state and local governments had been asked, through participation in grant programs, to deal with broad socioeconomic issues for which they were ill-equipped to cope. Because of their competitive relationships in the search for revenue and their restricted boundaries, and because of the ability of both tax payers and payees to migrate from jurisdiction to jurisdiction, subnational governments cannot bring about extensive changes in the distribution of the nation's income and wealth. There are, therefore, "powerful reasons for federalizing such kinds of assistance and gradually moving away from the current grant-in-aid technique for dealing with direct assistance to the poor."⁸¹ In fact, the supplemental security income program for the aged, blind, and disabled was financed fully by the federal government after December 31, 1973, while the food stamp program was changed from a grant to a direct spending program in 1971.

The skeptical mood had important policy consequences because it brought new items to the agenda for national action. In 1976 the Congress began consideration of "sunset" legislation, and a new President, pledged to institute governmental reorganization and a system of zero-based budgeting, was elected in November. These measures are techniques for evaluating and then weeding out ineffectual or duplicative programs. Thus they may suggest a growing commitment in both the executive and legislative branches to clarify the purposes of federal assistance and to reduce the number of categorical aids to manageable proportions. In this respect the contrast is clear and strong with the previous ten-year period, when national attention was fixed on the development of new, innovative initiatives and program growth in many social policy fields. Still uncertain, however, is whether the institutional capabilities can be developed to tackle effectively this difficult job.

Overview: Policies and Paradoxes

The period 1969-76, like the preceding five years, was noteworthy for the new policy initiatives developed under Presidential guidance. President Richard M. Nixon hoped to establish a New Federalism that would increase the discretion of state and local governments in the use of grant funds in many fields and simplify interlevel relationships. More than any other in modern American history, the Nixon Administration put issues of intergovernment-

tal relations at the center of its domestic policy. In contrast to past periods, questions of means—of the form and quality of relationships—were given attention coequal with, if not greater than, those of ends.

The most important of the New Federalism proposals involved the use of general and special revenue sharing. Had all these programs been adopted, 45% of federal aid in FY 1972 would have been of a broadly discretionary, rather than categorical, nature. President Gerald R. Ford exerted his leadership in the same direction, also recommending a number of significant grant consolidations. Major steps to improve the management of federal assistance also were undertaken after 1969.

From a broad historical perspective, however, the continuities now appear as striking as the departures from the past. Although GRS and three block grants were adopted, the fundamentally categorical nature of the intergovernmental grant system was not altered substantially. The balance of authority between the federal government and subnational jurisdictions shifted only marginally and only in a few narrow program areas. Most problems of federal aid identified earlier persisted in 1976 but with some additions.

A considerable gap arose between Presidential intentions and actual results. Many of these seem paradoxical, suggesting that American intergovernmental relations are rooted firmly in historic and political conditions that cannot be altered readily. For example:

- Despite Presidential hostility toward narrow, specific-purpose categorical grants and a preference for more flexible instruments of assistance, the number of categorical grants continued to rise, as did the federal dollars authorized and appropriated for this type of assistance.
- Although emphasizing stronger federal-state relationships, direct federal assistance to local governments—bypassing the states—increased as greatly as it did during the Johnson administration.
- Although a simplification and streamlining of federal aid was sought and, to a degree, achieved, growing red tape from government-wide requirements and procedures in areas such as employment and environmental protection were a source of new interlevel

irritation and confusion; ironically, these were often regarded as even more onerous than those that had been reduced.

- Despite mounting federal deficits, a badly strained economy, and various Presidential efforts to curb grant outlays, spending for intergovernmental programs continued to climb rapidly, more than doubling between 1970 and 1975, as it had during President Johnson's five-year tenure.
- Although stressing efforts to devolve authority from Washington, DC, a large number of local governments were brought under at least limited federal oversight for the first time as a consequence of GRS and the community development and manpower block grants; meanwhile, many other local governments moved, under federal fiscal encouragement, into new areas of activity.
- In contrast with the traditional stress of conservative administrations on state and local autonomy, the dependence of subnational governments on national aid grew rapidly during this eight-year period.
- Although the New Federalism strategy contemplated a sorting out of functions by level of government, by 1976 servicing responsibilities were more thoroughly marbelized than ever before as the federal government entered new functional fields.

These ironies, however, are not inexplicable. In part they are a product of the conflicting orientations of a heavily Democratic Congress and a Republican President. Beyond that they show the enduring influence of trends rooted in historical and political circumstances that are deepseated and persistent.

EPILOGUE

The analysis included in this report mostly describes the categorical aid system as of 1975. By mid-1977, however, some significant changes were apparent. Others were indicated by the initial policy proposals of the Carter Administration, especially as reflected in the revised budget for FY 1978 and its economic recovery package.

Aid Growth

The most significant trend was the sharp upward movement in federal grant-in-aid payments. Aid outlays had increased from \$49.7 billion in 1975—the level reflected in most of the foregoing analysis—to \$59.0 billion in 1976 and, more dramatically, to an estimated \$72.4 billion for 1977. The amount of the 1976-77 increase—over \$13 billion—was actually slightly greater than the total amount of federal aid in 1966. Most of this rise could be attributed to the substantial hikes in five program areas: countercyclical grants (\$4.4 billion), income security programs (\$2.1 billion), sewage treatment construction (\$2 billion), Medicaid (\$1.7 billion), and community development block grants (\$1.3 billion).⁸²

A substantial, although smaller increase of \$9.3 billion was budgeted for 1978. The projected aid total for that year—\$81.7 billion—is over \$10 billion higher than the budget level submitted by President Ford in January 1977, largely because of an \$8.1 billion increase in countercyclical antirecession aid. In addition cuts that had been proposed initially in certain other program areas were restored to the budget.

This aid growth also was dramatic in percentage terms. The annual rate of increase for 1976-77 (22.6%) exceeded slightly even the growth highs set previously in 1968 and 1972. A substantial but lower growth rate (15.6%) was planned for FY 1978. This was, however, well above the 2% increase contem-

plated by President Ford, who had anticipated that antirecession grants could be cut as economic conditions improved.

These sharp aid gains increased state-local fiscal dependence on federal aid, with grants growing at more than twice the rate of other state and local revenue sources during 1975-77. By 1978 28.5% of all state and local expenditures are expected to be supported by national grant programs (see *Table I-16*), an increase from the 23.2% level in 1975. Steady raises also were indicated during 1975-78 in grants as a percentage of total and domestic federal outlays, reversing the declines recorded in 1974 and 1975 and projected in the Ford FY 1978 budget.

Broad-Based Aid

A modest increase in the reliance on broad-based aid (chiefly but not exclusively composed of the block grant programs), but a nearly equivalent decrease in general purpose aid (including GRS), was anticipated for 1975-78, according to a first-time tabulation included in OMB's *Special Analyses* for FY 1978. The growth reflected primarily the expanding outlays for the flexible community development block grants and the Economic Development Administration's flexible countercyclical local public works program. In 1978 broad-based aid will account for nearly 16% of all grant outlays, and general purpose aid about 12%. Other aid—the categorical sector—will comprise 72.3%, down slightly from its share of 74.5% in 1975 (see *Table I-17*).

Table I-16
Historical Trend of Federal Grant-in-Aid Outlays, 1975-78
(In Millions of Dollars)

	1975	1976	Estimate	
			1977	1978
Total grants-in-aid	\$49,723	\$59,037	\$72,445	\$81,682
Federal grants as a percent of:				
Federal outlays:				
Total	15.3%	16.1%	17.4%	17.8%
Domestic^a	21.3	21.7	23.3	24.1
State and local expenditures^b	23.2	24.7	27.5	28.5

^aExcludes outlays for the national defense and international affairs functions.

^bAs defined in the national income accounts.

Source: Office of Management and Budget, *Grants-in-Aid in the Revised 1978 Budget*, Washington, DC, Fiscal Analysis Branch, Budget Review Division, Office of Management and Budget, March 4, 1977, p. 5.

Table I-17
**Outlays for General Purpose, Broad Based, and Other Grants-in-Aid
for the Revised 1978 Budget**
(In Millions of Dollars)

	FY 1975	FY 1976	Transition Quarter	Estimate FY 1977	Estimate FY 1978
General purpose aid:					
General revenue sharing	\$ 6,130	\$ 6,243	\$ 1,588	\$ 6,776	\$ 6,814
Other general purpose fiscal assistance and TVA ^a	878	807	434	3,156	2,899
Subtotal, general purpose aid	7,008	7,050	2,022	9,932	9,713
Broad-based aid:					
Community development block grants	38	983	439	2,250	3,052
Comprehensive health grants	82	128	18	104	94
Employment and training ^b	2,340	2,603	876	2,792	3,284
Social Services	2,047	2,251	561	2,713	2,733
Criminal justice assistance	577	519	137	486	518
School aid in federally affected areas	577	558	66	791	433
Local public works	—	—	—	987	2,789
Subtotal, broad-based aid	5,661	7,042	2,097	10,123	12,903
Other aid	37,054	44,945	11,790	52,390	59,066
TOTAL	\$49,723	\$59,037	\$15,909	\$72,445	\$81,682

Addendum: Percent of Total

General purpose aid	14.1%	11.9%	12.7%	13.7%	11.9%
Broad based aid	11.4	11.9	13.2	14.0	15.8
Other aid	74.5	76.1	74.1	72.3	72.3
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

^aFor detail, see grants in the revenue sharing and general purpose fiscal assistance function, Table O-9 of Special Analysis O ("Federal Aid to State and Local Governments") in *Special Analyses, 1978 Budget of the U.S. Government*, and Tables 7 and 8 below. Amounts in Table 6 above include shared revenues from the Tennessee Valley Authority, shown in the natural resources, environment, and energy function.

^b*Comprehensive Employment and Training Act*, Titles I and II, and summer employment program.

Source: Office of Management and Budget, *Grants-in-Aid in the Revised 1978 Budget*, Washington, DC, Fiscal Analysis Branch, Budget Review Division, Office of Management and Budget, March 4, 1977, p. 9.

No governmentwide Carter administration policy on grant consolidation was enunciated during its first four months in office. Block grant proposals in the fields of health, elementary and secondary education, and child nutrition included in the outgoing Ford Administration's FY 1978 budget were eliminated, and several new categorical programs were recommended. The projected block grants would have merged a total of 58 categorical programs in the three fields. Although the three specific Ford Administration consolidations were not endorsed, others may be advanced in the future. The zero-base budgeting technique introduced by President James E. Carter throughout the government called for the consideration of alternative methods of accomplishing programmatic objectives, including consolidated grants among other techniques. Furthermore President Carter had made a strong commitment to improving and simplifying the operation of the federal government, as well as strengthening relationships with state and local officials.⁸³ In more than one preinaugural address, President Carter criticized the proliferation of categorical grant programs and pledged to identify instances in which grant consolidations would be desirable.⁸⁴

Countercyclical Programs

Clearly most major developments in intergovernmental fiscal relations in this most recent period were the result of national attempts to use the grants-in-aid device as an important instrument of federal stabilization policy. This effort was largely new. In 1976-77 two additional programs of aid were enacted and two existing programs were expanded

with the purpose of providing special antirecession assistance to state-local governments. Three distinct strategies were devised: a public works approach, under Title I of the *Public Works Employment Act of 1976*; a revenue sharing strategy, under Title II of the same act; and a public service employment component, chiefly under Titles II and VI of CETA. All are aimed at the same objective of countering recession by increasing employment, and the operation of each is tied to the unemployment rate.

Taking these programs together, countercyclical aid will total more than \$6 billion in FY 1977 and nearly \$10 billion in FY 1978, as *Table 1-18* indicates. These amounts are very substantial, representing 8.6% and 12.1 % respectively of all budgeted grant outlays in these two years. Therefore countercyclical aid involves a share of the grant system that is almost equivalent to that held by either general revenue sharing or the five block grants in recent years.

Given the objectives of these aid programs, fiscal cutbacks are expected in future years as economic conditions improve. The magnitude of federal assistance as reflected by the measures employed total dollars, aid in relation to other federal outlays, and state-local fiscal dependence probably is only temporary. The extent to which these reductions do, in fact, occur in the face of probable political opposition will be one indication of the actual utility of such aid programs as an instrument of national fiscal policy. This issue and others concerning the design and operation of countercyclical grant programs will be considered in a forthcoming ACIR study of federal stabilization policy and state-local fiscal behavior.

Table 1-18
Countercyclical Grant-in-Aid Outlays
(In Millions of Dollars)

	1976	1977	1978
Antirecession fiscal assistance	—	\$2,175	\$1,550
Local public works	—	987	2,789
Employment and training assistance^a	—	135	672
Temporary employment assistance (Title VI)	\$1,887	2,949	4,872
Special payments to territories	—	—	15
TOTAL	\$1,887	\$6,246	\$9,898

^aThe base level for this ongoing program is not considered countercyclical.

Source: Office of Management and Budget, *Grants-in-Aid in the Revised 1978 Budget*, Washington, DC, Fiscal Analysis Branch, Budget Review Division, Office of Management and Budget, March 4, 1977, p. 4.

FOOTNOTES

- ¹ Earl M. Baker, et al., *Federal Grants, the National Interest and State Response: A Review of Theory and Research*, Philadelphia, PA, Center for the Study of Federalism, Temple University, March 1974, p. 22.
- ² Ralph W. Tyler, "The Federal Role in Education," *The Public Interest*, 34, Winter 1974, p. 165.
- ³ Federal Security Agency, *The Principle of Equalization Applied to the Allocation of Grants in Aid*, Washington, DC, Social Security Administration, Bureau of Research and Statistics, September 1947, p. 2.
- ⁴ Baker, *op. cit.*, p. 22.
- ⁵ Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System* (A-31), Washington, DC, U.S. Government Printing Office, 1967, Vol. 1, p. 138.
- ⁶ Harry N. Scheiber, *The Condition of American Federalism: An Historian's View*, a study submitted by the Subcommittee on Intergovernmental Relations to the Committee on Government Operations, U.S. Congress, Senate, 89th Cong., 2nd Sess., Oct. 15, 1966, p. 3.
- ⁷ V.O. Key, Jr., *The Administration of Federal Grants to States*, Chicago, IL, Public Administration Service, 1937, pp. 27-28.
- ⁸ W. Brooke Graves, *American Intergovernmental Relations*, New York, NY, Charles Scribner's Sons, 1964, p. 498. The scope of permitted activities was broadened greatly under the *Purnell Act of 1925*.
- ⁹ Key, *op. cit.*, pp. 28, 109-10.
- ¹⁰ Federal Security Agency, *op. cit.*, p. 36.
- ¹¹ Key, *op. cit.*, pp. 28, 156-57.
- ¹² *Ibid.*, pp. 328-29; Baker, *op. cit.*, p. 24.
- ¹³ Deil S. Wright, *Federal Grants-in-Aid: Perspectives and Alternatives*, Washington, DC, American Enterprise Institute for Public Policy Research, June 1968, p. 26.
- ¹⁴ Graves, *op. cit.*, p. 506.
- ¹⁵ James A. Maxwell, *The Fiscal Impact of Federalism in the United States*, Cambridge, MA, Harvard University Press, 1946, p. 187, as quoted in Graves, *op. cit.*, p. 519.
- ¹⁶ Mark I. Gelfand, *A Nation of Cities: The Federal Government and Urban America, 1933-1965*, New York, NY, Oxford University Press, 1975, pp. 222-23.
- ¹⁷ Key, *op. cit.*, p. 34.
- ¹⁸ Donald Bruce Johnson and Kirk H. Porter, *National Party Platforms, 1840-1972*, Urbana, IL, University of Illinois Press, 1973, p. 249.
- ¹⁹ James L. Sundquist with David W. Davis, *Making Federalism Work: A Study of Program Coordination at the Community Level*, Washington, DC, The Brookings Institution, 1969, p. 7.
- ²⁰ Baker, *op. cit.*, p. 29.
- ²¹ *Ibid.*, p. 28.
- ²² Graves, *op. cit.*, p. 543.
- ²³ *Massachusetts v. Mellon and Frothingham v. Mellon*, 262 U.S. 447 (1923).
- ²⁴ Wright, *op. cit.*, p. 29.
- ²⁵ For a discussion, see Scheiber, *op. cit.*
- ²⁶ Advisory Commission on Intergovernmental Relations, *op. cit.*, Table 22, pp. 140-41.
- ²⁷ Federal Security Agency, *op. cit.*, pp. 7-8, 41-42.
- ²⁸ Baker, *op. cit.*, p. 31.
- ²⁹ Emergency programs are excluded from some data series for the Depression years. See Scheiber, *op. cit.*, p. 9.
- ³⁰ Federal Security Agency, *op. cit.*, p. 44.
- ³¹ Baker, *op. cit.*, p. 32.
- ³² *Ibid.*, p. 34.
- ³³ Advisory Commission on Intergovernmental Relations, *op. cit.*, p. 139.
- ³⁴ Roscoe C. Martin, *The Cities and the Federal System*, New York, NY, Atherton Press, 1965, p. 111.
- ³⁵ Gelfand, *op. cit.*, p. 65.
- ³⁶ An account of these events is contained in *Ibid.*, Chapter II.
- ³⁷ See National Commission on Urban Problems, *Building the American City*, Washington, DC, U.S. Government Printing Office, 1969, Chapter 3, for a description and historical overview of public housing.
- ³⁸ For a discussion of this issue, see "The Federal Conditional Spending Power: A Search for Limits," *Northwestern University Law Review*, 70, May-June 1975, pp. 296-99.
- ³⁹ 297 U.S. 1 (1936).
- ⁴⁰ 301 U.S. 548 (1937).
- ⁴¹ Michael D. Reagan, *The New Federalism*, New York, NY, Oxford University Press, 1972, p. 13.
- ⁴² *Ibid.*, pp. 3-4.
- ⁴³ Advisory Commission on Intergovernmental Relations, *Periodic Congressional Reassessment of Federal Grants-In-Aid to State and Local Governments*, Washington, DC, U.S. Government Printing Office, 1961, p. 20.
- ⁴⁴ Federal Security Agency, *op. cit.*, pp. 8-9.
- ⁴⁵ See Frederick C. Mosher and Orville F. Poland, *The Costs of American Government: Facts, Trends, and Myths*, New York, NY, Dodd, Mead & Co., 1964, p. 162.
- ⁴⁶ Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management* (A-53), Washington, DC, U.S. Government Printing Office, 1977, pp. 3-5.
- ⁴⁷ Advisory Commission on Intergovernmental Relations, *Periodic Congressional Reassessment*, *op. cit.*, p. 19.
- ⁴⁸ *Ibid.*
- ⁴⁹ Each of these programs has been thoroughly assessed by the Commission, with the results reported in other volumes in this series. See *Safe Streets Reconsidered: The Block Grant Experience 1968-1975* (A-55), Washington, DC, U.S. Government Printing Office, January 1977; and *The Partnership for Health Act: Lessons From a Pioneering Block Grant* (A-56), Washington, DC, U.S. Government Printing Office, January 1977.
- ⁵⁰ For an analysis of this kind, see David A. Stockman, "The Social Pork Barrel," *The Public Interest*, 39, Spring 1976, pp. 3-30.
- ⁵¹ For a discussion of legislative oversight, see Chapter III of this volume and also Randall B. Ripley and Grace A. Franklin, *Congress, The Bureaucracy, and Public Policy*, Homewood, IL, The Dorsey Press, 1976, pp. 173-78.
- ⁵² Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System*, *op. cit.*, pp. 162-63.
- ⁵³ *Ibid.*, pp. 159-61.
- ⁵⁴ These programs are described in Chapter II of another volume in this series: *Improving Federal Grants Management*, *op. cit.*
- ⁵⁵ Advisory Commission on Intergovernmental Relations, *A State Response to Urban Problems: Recent Experience Under the "Buying In" Approach*, Washington, DC, U.S. Government Printing Office, 1970, p. 1.

- ⁵⁶ See Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System, op. cit.*, p. 165.
- ⁵⁷ This view is advanced by Roscoe Martin in *The Cities and the Federal System, op. cit.*, Chapter 3.
- ⁵⁸ Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System, op. cit.*, p. 169.
- ⁵⁹ *Ibid.*, pp. 175-81.
- ⁶⁰ These issues are treated in detail in another volume in this series, *Improving Federal Grants Management, op. cit.*
- ⁶¹ Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System, op. cit.*, pp. 181-84.
- ⁶² Sundquist, *op. cit.*, p. 3.
- ⁶³ *Ibid.*, pp. 4-5.
- ⁶⁴ Key, *op. cit.*, p. 368.
- ⁶⁵ Message from the President of the United States, *The Commission on Intergovernmental Relations*, U.S. House of Representatives, 84th Cong., 1st Sess., June 28, 1955, p. 119.
- ⁶⁶ Baker, *op. cit.*, pp. 11-12, 27-28, 34.
- ⁶⁷ Sundquist, *op. cit.*, p. 6.
- ⁶⁸ Comptroller General of the United States, *Fundamental Changes Are Needed in Federal Assistance to State and Local Governments*, Washington, DC, General Accounting Office, Aug. 19, 1975, pp. i, 2.
- ⁶⁹ Congressional Budget Office, *Budget Options for Fiscal Year 1977: A Report to the Senate and House Committees on the Budget*, Washington, DC, U.S. Government Printing Office, 1976, p. 248.
- ⁷⁰ George E. Peterson, "Finance," *The Urban Predicament*, William Gorham and Nathan Glazer (eds.), Washington, DC, The Urban Institute, 1976, p. 62.
- ⁷¹ *The Commission on Intergovernmental Relations, op. cit.*, p. 123.
- ⁷² Charles L. Schultze, "Federal Spending: Past, Present and Future," *Setting National Priorities: The Next Ten Years*, Henry Owen and Charles L. Schultze (eds.), Washington, DC, The Brookings Institution, 1976, p. 367.
- ⁷³ Charles L. Schultze, et al., *Setting National Priorities: The 1973 Budget*, Washington, DC, The Brookings Institution, 1972, pp. 394-409.
- ⁷⁴ Sophie R. Dales, "Federal Grants to State and Local Governments Fiscal Year 1975: A Quarter-Century Review," *Social Security Bulletin*, 39, September 1976, p. 31.
- ⁷⁵ Between 1969 and 1974, direct federal aid to local governments increased by a factor of more than four—from \$2.2 billion to \$10.2 billion, accounting for about a quarter of all aid. See Congressional Budget Office, *op. cit.*, p. 248.
- ⁷⁶ Office of Management and Budget, *Special Analyses, Budget of The United States Government*, Washington, DC, U.S. Government Printing Office, for FY 1975, p. 212, and FY 1976, p. 244.
- ⁷⁷ "The Second War Between the States," *Business Week*, May 17, 1976.
- ⁷⁸ These matters are considered in detail in another volume in this series. See Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management, op. cit.*
- ⁷⁹ Jeffrey L. Pressman and Aaron B. Wildavsky, *Implementation: How Great Expectations in Washington Are Dashed in Oakland; Or, Why It's Amazing that Federal Programs Work at All, This Being a Saga of the Economic Development Administration as Told by Two Sympathetic Observers Who Seek to Build Morals on a Foundation of Ruined Hopes*, Berkeley, CA, University of California Press, 1973.
- ⁸⁰ Gorham and Glazer, *op. cit.*, pp. 1-2.
- ⁸¹ Schultze, "Federal Spending: Past, Present, and Future," *op. cit.*, p. 361.
- ⁸² "Federal Aid to States, Localities Increases Substantially in FY 1977," *Intergovernmental Perspective*, Spring 1977, p. 20.
- ⁸³ See Neal R. Peirce, "Watson Sees Closer Ties in the Intergovernmental Arena," *National Journal*, April 9, 1977, pp. 557-59.
- ⁸⁴ "Presidential Candidate Carter Embraces Major Points of U.S. Conference of Mayors' Policy," *The Mayor*, June 30, 1976, p. 2.

Chapter II

Why Categorical Grants?

The development of American federalism since the Civil War, which settled the most fundamental issues, is in large part the story of an expanding system of categorical aids. The first modest steps were taken in the latter decades of the nineteenth century. In the World War I era, grants developed most of their modern administrative characteristics and became, for the first time, of real fiscal significance. In the 1920s they acquired a judicial shield against legal challenge, which permitted later expansion.

Federal cooperation with state and local governments was pushed to new levels by the Great Depression, which established the general contours of the modern federal system and clearly indicated the authority of Congress to provide conditional aid in almost every sphere of domestic concern. Although interrupted by the Second World War, the level and scope of assistance rose gradually but steadily from 1946 through 1963, after which time the pace quickened dramatically. Cumulatively the events over this period of a century established an intergovernmental system in which, by 1976:¹

- 24.7% of state and local expenditures were supported by federal assistance;
- 21.7% of federal domestic outlays were made through state and local governments by means of grant programs;
- the federal government had some financial involvement in almost every major field of state and local activity; and

- more than 448 separate programs of federal assistance to state and local governments existed, almost all of which were conditional grants for narrowly defined services and activities.

These features of American federalism were not, in any clear sense, preordained. Other advanced democracies having a federal constitution have followed different developmental patterns.² Among the most obvious historical alternatives that might have been, but were not, adopted are: a pattern of financial self-sufficiency on the part of state and local governments; direct performance by the national government of all its domestic functions; a clear distinction between national and subnational services and responsibilities; and the use of broad-gauged general support and functional (or block) grants for the equalization of fiscal capacities and service levels among the states. In the light of such alternatives, the question to be considered is: Why was the development of the American federal system characterized by the extensive use of categorical assistance programs rather than by the alternative federal-state-local relationships?

Possible answers to this query, based upon the review of the historical record presented in the previous chapter together with commentaries of experts in the field, suggest the importance of at least three factors: (1) economic and fiscal considerations; (2) the constitutional and philosophical traditions of the United States; and (3) features of the decisionmaking process in the American political system.

ECONOMIC AND FISCAL FACTORS

Fiscal factors have been an important influence in the development of federal grants-in-aid. Throughout much of American history, the national government has had resources more than adequate for its own direct spending needs. Federal revenues have generally grown more rapidly than federal expenditures, rendering tax increases unnecessary except in times of war.³ Because of this greater access to uncommitted revenue, political scientist Daniel Elazar has noted that "historically, the federal government has had to take the lead in expending large sums for the introduction of new programs managed by any level of government in the United States."⁴ Such a strong federal fiscal position was a necessary requisite to the steady expansion of national aid to state and local governments.

This situation reflects a fundamental problem of all federal systems: "no natural coincidence exists between the ability of a government to handle a set of functions and its ability to collect revenues."⁵ In general the legal servicing responsibilities placed on subnational governments are greater than their revenue resources, while at the national level, the opposite situation usually prevails.

During the nation's first century, the most important fiscal factor was the tremendous federal public domain, which made possible the early land grants in support of education.⁶ Actual budgetary surpluses led to the distribution of cash bonuses to the states in 1837. During the early 1960s the prospect of a similar fiscal dividend generated proposals for revenue sharing with the states. At that time it appeared that federal revenues might grow at about \$6 billion a year over the amount needed for existing federal programs.⁷ Of course revenue sharing was not actually adopted until 1972, but the substan-

tial increases in revenue during these years were used to finance an expansion of categorical aids as well as the Vietnam war.⁸

The federal income tax, instituted in 1913, was a crucial step in the expanding national role. Because it responds positively to national economic growth, the income tax has provided steadily increasing resources for the federal treasury. Although tax rates initially were modest, they were increased sharply to finance the First World War and were not reduced to pre-War levels thereafter. The growth of income tax receipts therefore permitted an expansion of all federal activities, including grants-in-aid.

State and local taxes, which still generally are tied to sales and property, have lacked these escalator features. Indeed in 1972 local taxes produced about the same amount of revenue expressed as a percentage of gross national product (GNP) as they did in the 1920s. On this same basis federal receipts have roughly quadrupled during this period, as is shown in *Table II-1*. State revenues also have increased as the states have moved away from dependence on property taxes toward greater reliance on sales and income taxes.

The Great Depression was a second important economic factor. Under the conditions of the national financial emergency, only the federal government had the fiscal strength necessary to relieve human suffering and move toward fiscal recovery. Federal grants increased tenfold in two years under the New Deal, establishing new patterns for federal-state and federal-local cooperation, especially in the social welfare area.

Differences in the economic strength or fiscal capacity of state and local jurisdictions also have encouraged some measures for fiscal equalization through federal aid. These differences were dramatized during the Depression, and the use of equal-

Table II-1
Tax Revenues As A Percent of the Gross National Product, By Government Level and Year

	1902	1913	1922	1927	1940	1950	1960	1970	1972
Federal	2.3%	1.7%	4.6%	3.6%	5.7%	13.6%	18.2%	19.8%	17.7%
State	0.7	0.8	1.4	1.8	4.4	3.4	4.5	6.0	6.2
Local	3.2	3.3	4.2	4.7	4.5	2.9	3.8	4.2	4.3
TOTAL	6.2%	5.8%	10.2%	10.2%	14.5%	19.9%	26.5%	30.0%	28.2%

Source: Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice*, 2nd Ed., New York, NY, McGraw-Hill Book Co., 1976, p. 207.

izing provisions in several grant formulas followed.⁹ Thirty years later the discovery of continuing poverty and economic underdevelopment in certain regions and states encouraged a new round of federal aid initiatives. At the local level the fragmentation of governmental jurisdictions in metropolitan areas has meant that resources are often separated from need. To a considerable degree federal assistance has provided the most acceptable means for bridging the gap between wealthy suburbs and the poorer central cities.

However, although these fiscal factors indicated the necessity for federal financial assistance, they did not determine its categorical form. More flexible grant types would have served the purpose just as well. Hence other influences must be considered.

Externalities

Some economists have suggested another conceptual framework for the growth of categorical aids. This explanation involves recognition of the "spillovers" or "externalities" that occur in the provision of many state and local government services. The benefits flowing from public programs are not necessarily restricted to residents of the jurisdiction that provides and finances them through its taxes. Some spill over to the residents of nearby areas or to the general public. Waste water treatment is one clear case; the beneficiaries of cleaner water often are those who live downstream from a source of pollution, not those whose effluent is treated. Highways that carry a large volume of interstate traffic are another obvious example of a state service that benefits nonresidents. Higher education, because of the frequency with which college graduates migrate to other states, might be a third instance.

The danger in these situations is that the amount of public services provided will be inadequate, because local voters and taxpayers have no incentive to pay for activities that benefit others. One solution is to have a share of the costs proportional to the actual distribution of benefits borne by a higher level of government, which can be accomplished by a properly designed grant-in-aid. In 1967 George F. Break concluded that:

... external benefits, which will probably continue to grow in importance, are already pervasive enough to support a strong *prima facie* case for federal and state functional grants to lower levels of government.¹⁰

Grants aimed at correcting these spillovers usually are categorical and would be necessary even if a state or locality possessed a strong fiscal base.

This theory, although accepted by many experts in public finance, is subject to certain criticisms. First, it is based upon the somewhat tenuous assumption that state and local governments know the needs or preferences of their citizenry and act to maximize their residents' economic welfare.¹¹ Other economists, although accepting the basic argument in certain instances, suggest that many existing grants are not actually based upon the externality principle. Concerning this interpretation, Charles L. Schultze concludes that externality:

... is not very useful for analyzing most of the existing social grants. Rather, many of these grants are a means by which the federal government uses state and local governments ... as agents or subcontractors to produce centrally determined amounts and kinds of collective goods, since, for a number of reasons, principally historical and political, the federal government itself virtually never delivers collective goods or services at the local level.¹²

This point can be clarified by reference to *Table II-2*, which indicates one set of estimates of the importance of the externalities involved in various functional fields. The federal government makes financial contributions to some fields in which externalities are slight (police protection, libraries), while the states and localities retain substantial fiscal burdens in activities that involve the largest externalities (education, welfare). Moreover, as Schultze adds, most federal grants do not have the specific characteristics that the externality theory suggests are desirable. For these reasons the historical and political factors, which Schultze indicates are the basis for many federal programs, also should be considered.

THE CONSTITUTIONAL QUESTION

The Constitution itself has indirectly encouraged the development of categorical grants-in-aid. The grant device, after all, has been used as a means of avoiding the legal issues that would be involved in the direct national provision of many domestic services. Because grants operate through state and local governments, and because participation is voluntary, not mandatory, they have been subject less to chal-

lenge on constitutional grounds. Earl M. Baker indicates that, "prior to World War I, grants-in-aid were largely regarded as a mechanism attached to existing national programs for transmitting money to the states when direct national expenditures would have been constitutionally doubtful."¹³ After the Frothingham decision,¹⁴ and especially since the New Deal, these constitutional constraints on federal activity have been weak, as indicated in the previous chapter. By the 1930s the federal aid pattern was fairly well established.

Some political scientists argue that a nation's constitution is not only what has been inscribed in its basic documents, but also includes its traditions

and deeply rooted values. Loyalties to the states and a belief in the desirability of strong, independent local communities probably have promoted the sharing of functions through federal aid rather than a desire for direct national administration. Throughout much of the nation's history, a centralization of power in the national government has been feared and opposed by large segments of the public. Grants-in-aid have had the advantage of permitting a considerable degree of discretion for states and communities to select the programs in which they participate, to develop service standards, and to administer the aided activities. They also have allowed an expansion of the total public sector while limiting the size of the federal bureaucracy. It is true, however, that neither of our major parties, neither our liberal nor conservative political traditions, none of our regions, and none of our basic economic interest groups has adhered consistently to a fixed position on centralization or decentralization questions.

For these reasons the doctrines of "dual federalism" and "states rights" have had a life of their own, independent of the actions pro or con by the Supreme Court. At least through the 1950s, federal assistance activities were confined by an effort to restrict aid to fields clearly involving the national interest or an important national purpose. The 1955 report of the Commission on Intergovernmental Relations (Kestnbaum Commission) concluded that a grant should be offered:

... only for a clearly indicated and presently important national objective. This calls for a searching and selective test of the justification for national participation. . . . Where the activity is one normally considered the primary responsibility of state and local governments, substantial evidence should be required that national participation is necessary in order to protect or to promote the national interest.¹⁵

Worthy of note is the fact that the federal government frequently has justified its entry into domestic fields by reference to such clearly national responsibilities as defense (as in the *National Defense Education Act* and the National Interstate and Defense Highway System) or postal delivery (as in the 1916 *Highway Act*).

After the mid-1960s, however, the concept of the national interest lost most of its substantive content. A procedural definition increasingly was used, with

Table 11-2
Classification of Selected Government Services by the Geographical Scope of Benefits

Local^a	Fire Protection Police Protection Parks and Recreation Public Libraries Water Distribution City Streets
Intermediate^b	Air and Water Pollution Water Supply Parks and Recreation Public Libraries Sewage and Refuse Disposal Mass Transit Arterial Streets and Intercity Highways Airports Urban Planning and Renewal
Federal^c	Education Parks and Recreation Aid to Low-Income Groups Communicable Disease Control Research

^aServices with few important benefit spillovers beyond the local level of government.

^bServices with significant spillovers beyond the local level but not beyond the regional level.

^cServices with significant spillovers beyond the regional level.

Source: George F. Break, *Intergovernmental Fiscal Relations in the United States*, Washington, DC, The Brookings Institution, 1967, p. 69.

any action passed by both legislative chambers and signed by the President being accepted as appropriate. It could thus be argued that in political terms, "any objective is manifestly and significantly national in character which survives the arduous, lengthy 'testing process' that Congress provides with its polycentric power structure and limited majority norms."¹⁶ By the mid-1970s many believed that the United States had become a single national community to such an extent that any domestic problem was, at least to some degree, a national concern. On the other hand others accepted the argument advanced by Charles Schultze that many categorical aids "probably serve no major national purpose but simply reflect the substitution of the judgment of federal legislators and agency officials for that of state and local officials..."¹⁷ All commentators agree that the concept of "national purpose" or "national interest" has become increasingly difficult to define and of declining practical significance in most contemporary political deliberations.

POLITICAL FACTORS

The categorical grant program also appears to many analysts to be an expression of basic American political patterns and institutions. Important influences may be found in the operations of interest groups, the attitudes of federal officials, the structure and procedures of Congress, and the social and political diversity of the population.

Interest Group Influences

A political interpretation of grants-in-aid, based on observations about interest group activities, was offered several years ago in an article by Phillip Monypenny.¹⁸ Monypenny found that the growing grant system largely failed to satisfy the standard textbook justifications for federal aid. It did not provide for substantial fiscal equalization among the states, for example, and the programs did not appear to fall into areas of special national interest or concern by any consistent definition.

Monypenny believed that the actual source of the grant programs lay in features of the political system. A sharing of program responsibility, using federal fiscal resources but offering some discretion through administration by the states, was produced when an interest group lacked sufficient strength to gain all of its objectives in either the state capitals or Congress. Monypenny suggested:

It can be asserted therefore that politically speaking, federal aid programs are the outcome of a loose coalition which resorts to a mixed federal-state program because it is not strong enough in individual states to secure its program, and because it is not united enough to achieve a wholly federal program against the opposition which a specific program would engender.¹⁸

Viewed in the light of these political considerations, Monypenny argued, "the grant-in-aid programs make sense."¹⁹

A similar point has been made by another political scientist. Deil Wright suggests that interest groups attempt to maximize their effectiveness while minimizing organizational costs by taking their causes to Washington. A single legislative victory in the Capitol may result in a uniform policy throughout the nation, with much less expenditure of effort than would be required for 50 separate lobbying efforts in the states.²⁰ In this manner the federal government is urged, through the grant device, to enter fields within the competence of subnational governments.

Selma Mushkin, with a third view, has stressed the particularistic nature of the political concerns of the average citizen:

Most federal aid programs originate in rather specific public needs and are designed primarily to stimulate states to meet these needs. Pressures for action have centered on concerns of the citizen and of the interest groups with which he associates himself for political action: clean water, school hot lunches, training practical nurses, control of cancer, efficient interstate highways, and scientific apparatus in classrooms. In this setting, categorical aids have become an important instrument by which national action is identified with these interests, thereby stimulating necessary state and local actions, and, yet, keeping administration and programming as much as possible at the state and local levels.²¹

Federal Distrust

The use of categorical aid programs also has been encouraged by a set of attitudes shared by many officials in the national legislative and execu-

tive branches. In its most moderate form, this attitude appears in the view that the government that raises money via taxation should also control the expenditure of that money. A preference for categorical aid reflects the judgment that this instrument maximizes accountability in the use of federal funds. Not infrequently, however, a more extreme position is taken, based upon a deeply felt distrust regarding the intentions, performance, and general competence and representativeness of state, municipal, and county governments.

The 1955 report of the Kestnbaum Commission highlighted the need for accountability through categorization, concluding that:

...when federal aid is directed toward specific activities, it is possible to observe the effects of each grant, to evaluate the progress of aided activities, and to relate the amount of financial assistance to needs. There is more assurance that federal funds will be used to promote the nation's primary interests.²²

More recently, a Congressional committee professional staff member, Dr. Delphis C. Goldberg, has described this position from the legislative perspective, contrasting categorical programs with broader purpose grants:

There are practical disadvantages to assistance mechanisms that carry few or no conditions. The federal government may become locked into supporting ineffective and inefficient activities, and the information needed to evaluate programs becomes difficult or impossible to obtain. In discharging its responsibilities, Congress generally desires more than assurance of fiscal probity; it wants to know how well the money is spent and who benefits.²³

Distrust or actual hostility toward subnational governments was indicated in the views expressed by Wilbur J. Cohen, a former Secretary of the Department of Health, Education and Welfare, in an interview in 1972. Secretary Cohen described his comments on the revenue sharing proposal to a group of Democratic mayors.

I told them, "I found it hard to argue—in fact I am very unsympathetic with all

you fellows asking for this federal revenue sharing when most of you run political machines that don't allow competent people to administer programs and you're shackled to a lot of political hacks.²⁴

Only the federal government, in Secretary Cohen's view, could guarantee rapid action on pressing social problems.

...I think in the nature of problems we face in our society, there's no question in my mind that we wouldn't be where we are today if there were no federal people pushing civil rights, desegregation or equal treatment for women. Take big, social-economic-ideological problems, and if left to just disorganized state and local action, or citizen action, I'm not saying that they might never get done, but they might take 100, 200 years. Whereas, the federal government action in the problems, whether its against mental retardation, old-age assistance or whether its building libraries—take any of the categories—I think have resulted in faster, more effective meeting of the nation's social problems.²⁵

Historically these criticisms have had both administrative and political dimensions. In the 1920s and 1930s, the former was paramount, and federal aid was widely credited with improving the administrative practices of the states.²⁶ Many grant requirements were directed specifically toward this end. The Kestnbaum Commission, along with many other students of government, concluded that, "When used effectively, the (categorical) grant not only has increased the volume of state and local services, but also has promoted higher standards both in service and administration. . . ."²⁷

In the 1960s and 1970s certain political issues received greater stress. States were regarded as unrepresentative and unresponsive to urban needs, encouraging the development of direct federal-local project grant programs.²⁸ Yet many policymakers believed that cities also neglected the interests of their least fortunate citizens. As noted by Edward R. Fried and his associates in the 1972 Brookings Institution report, *Setting National Priorities*:

...states and localities may fail to meet the needs of some groups of citizens, es-

pecially those with little power and status in the community. Although a few states and localities have at times been more progressive than the national government, most have been relatively unresponsive to the needs of the poor minorities. Disadvantaged groups (for example, labor unions in the 1930's and the blacks and the poor in the 1960's) have often turned to the federal government for help after failing to arouse state and local governments to awareness of their plight. The goal of providing more nearly equal opportunities for the disadvantaged—which was a growing national concern in the 1960's—cannot be met by relying on the highly unequal resources of state and local governments or on their willingness to provide the services that the disadvantaged require.²⁹

One expression of this critical view under the Great Society was the provision of federally funded services through limited purpose governments and private nonprofit organizations, thus bypassing the traditional state-local system entirely.

The federal government, however, has sometimes stepped into fields in which states actually have served as innovators, as well as those in which they seem to have lagged. Morton Grodzins has pointed to instances in the historical record (such as unemployment compensation, aid to the aged and blind, and road construction) in which the federal government has acted as an emulator of state programs by making national programs of their successes. Thus, he notes, "the states can lose power both ways."³⁰

Congressional Influence

Certain features of the structure and milieu of the national legislature also encourage the heavy use of categorical grants. Students of the legislative process indicate that specialization is a dominant feature of the modern Congress, particularly the House of Representatives. Power is concentrated at the committee and subcommittee level, while the central organs of leadership have limited control over activities in either chamber. Individual Congressmen are expected by their peers to become expert in some narrow, particular field of public policy, normally a field related to their committee or subcommittee assignments. In this manner Congress as a

whole gains the expertise necessary to deal with complex social and economic issues.

This norm of legislative specialization is accompanied by another—that of deference. Next to their own personal judgment, Congressmen rely most heavily in determining their issue positions on the opinions of their colleagues. Those thought to be most expert in a field, quite naturally, are usually the members who sit on that particular area's committee or subcommittee, and their views are respected.³¹ Deference goes beyond this respect for one's colleagues, however. At least in the past, freshman legislators were expected to refrain from even speaking out on matters outside their committee work unless their home district was affected directly.³²

Specialization also is tied to the practice of decisionmaking by "logrolling." Individual Congressmen generally seek committee assignments that relate to the interests of their constituents and, therefore, their own reelection prospects. For this reason they often have a direct stake in the promotion of new and beneficial programs. Other Congressmen hesitate to undercut the electoral base of their colleagues and expect this favor to be returned.

A consequence of these practices is that in many fields, the basic decisions are made at the committee or subcommittee level and are seldom challenged on the floor. This situation appears to have had a direct impact on the development of the grants system. The fragmentation of responsibility in Congress inclines it toward the creation of a large number of specialized grants, which may provide duplicative or even conflicting services. Harold Seidman stated:

It's no accident that we have four different water and sewer (grant) programs, because these come out of four separate committees of Congress. These are very important programs for a Congressman's constituency, and a Congressman wants to be sure that it will remain in an agency under the jurisdiction of his committee.³³

Similarly the weakness of central legislative organs means that each committee is largely free to follow its own inclinations regarding procedural matters, such as planning requirements, recipient administrative organization, matching and allocation formulas, and so forth. As a consequence grant programs vary greatly in these administrative particulars.

Although some specialization is certainly necessary in dealing with complex legislative problems,

the fragmentation of Congress fails to provide for an equally urgent requirement—the task of integrating the manifold activities of government. As Samuel P. Huntington has stressed, the complex modern environment requires both a high degree of specialization and a high degree of centralized coordinative authority. Congress has adjusted only half-way by accommodating the former but not the latter function.³⁴

Although establishing a direct cause-and-effect relationship would be difficult, the dispersion of authority in Congress has increased over the course of this century along with the expansion of the inter-governmental grant system. The increased development of categorical aid during the World War I era followed a revolt in 1910-11 against Rep. Joseph G. "Boss" Cannon, who as Speaker of the House had acquired extensive control over the House of Representatives. The effect of this revolt was to strengthen the position of committee chairmen.³⁵ The post-World War II growth of assistance occurred after another set of reforms embodied in the *Legislative Reorganization Act of 1946*. That act, which reduced the number of Congressional committees and was intended to strengthen them, had what was in many respects the contrary result, because it led to a proliferation of subcommittees and actually intensified the dispersion of power." At the same time Congressional committees acquired their first permanent professional staff positions.³⁷

The number of subcommittees grew steadily in the 1950s and their autonomy increased. Earlier struggles for control between committees and the central legislative leadership were replayed between the subcommittees and committee chairmen. As in 1910 the forces for dispersion proved the more powerful. By 1962—just before the period of the most rapid increase in categorical programs—it could be said that,

... given an active subcommittee chairman working in a specialized field with a staff of his own, the parent committee can do no more than change the grammar of a subcommittee report.³⁸

This trend has continued. In the 94th Congress (1975-76), 144 subcommittees were in existence, a significant increase from the 83 functioning 20 years ago. Moreover each subcommittee now possesses some staff. Most authorization hearings in recent years have been held at the subcommittee level,

rather than by the full committee as had been the practice in the past.³⁹ According to a recent observer, the problem of overlapping jurisdictions has increased. Duplication in hearings and frequent legislative delays occur, and a situation has arisen in which legislation is drafted in isolated environments that may not reflect the views of the membership at large.⁴⁰

The growth of the modern executive bureaucracy has paralleled the structure of Congressional subcommittees established since 1946.⁴¹ The administrative agencies, in turn, reinforce the pattern of Congressional organization. Bureaus and subcommittees closely work together and with the interest groups concerned with their specific policy areas. These "subgovernments," as they have been termed, are the spawning ground of many new aid programs. They form "iron triangles," which have often been criticized for operating beyond the control of the Congressional leadership, the Presidency, and the public-at-large.⁴²

Social Pluralism

The great social diversity of the United States also has had an impact upon the nature of its public policy. The nation is composed of a very large number of cultural and economic groups, each possessing different political objectives and concerns. As a consequence the existence of a large national majority actively committed to any specific major social policy change would be unusual. This fact is reflected in Congress, where modest, incremental programmatic steps, typified by the smaller categorical grant programs, are most readily accepted. Gary Orfield, an analyst of Congress, indicates:

For a number of readily understandable reasons, Congress is far more responsive to the need for new (categorical) programs than to basic fiscal or social rearrangements. Redressing general social or economic imbalances always means helping some while denying to others a portion of their goods or of their social objectives. . . .

[Most new grant programs, on the other hand, give additional benefits to some groups while seldom disturbing the others. When a Senator fights for more housing or better health care for old people, or for better education benefits for veterans, he usually gains strength from a segment of

his constituency without deeply offending anybody else.⁴³

Education provides an example. This field was the first area of federal assistance, and it is one in which programs have been particularly numerous. The current variety of categorical education programs reflects the inability in past decades of the supporters of federal aid to education to agree upon a system of general education support. Legislation to create a program of general assistance for education was considered repeatedly by Congress after 1870, with bills introduced into the House or Senate during most sessions over this period of nearly a century.⁴⁴ However division among the advocates of aid—especially those within the Democratic party—made passage impossible, with religion and race the most divisive issues.⁴⁵ The result was that consensus could be reached on the desirability of programs for specific education purposes but not for general aid. Jesse Burkhead has commented:

Specific grants for special purposes can be devised which avoid the problems that block the approval of (general) federal aid (to education). The past experience has been that pressures for federal aid have most frequently found expression in the passage of just such specialized programs. The agitation of the 1870s and 1880s was capped by the enactment of a vocational education law. The struggles of 1948 and 1949 brought educational legislation for impacted areas. And the 1956-57 House battles culminated not in a construction bill, but in the (National Defense Education Act).⁴⁶

Similarly in the early 1960s, attention was initially focused on assistance for higher education, which generated less opposition than aid to elementary and secondary schools.⁴⁷

Social pluralism and divergent interests also abet the enactment of comprehensive bills, including a number of distinct programs. Title after title is added in the process of building a supportive coalition. The 1965 *Elementary and Secondary Education Act* (ESEA) provides an example. In five titles ESEA provided aid to the educationally disadvantaged, authorized funds for school textbooks and libraries, established supplementary education centers for adults and children, developed a national network of

regional educational laboratories, and assisted the strengthening of state departments of education. U.S. Commissioner of Education Francis Keppel, who served as a “broker” among various interests in developing the legislation, developed a coalition that fit together as intricately as a “Chinese puzzle.”⁴⁸

SUMMARY

This review, based upon the analyses of several political scientists and economists, suggests a number of reasons for the development of an extensive federal assistance system dominated by categorical programs. These include:

- the fiscal gap among the governmental levels that is inherent in a federal system, with the most productive revenue sources available to the national government, but the heaviest service burdens placed on subnational jurisdictions;
- differences in the fiscal capacity of regions, states, and local governments, which justify assistance from higher governments as a means of equalizing resources and service levels;
- constitutional and philosophical obstacles to the direct provision of many domestic services by the national government;
- interest group activities organized around particular problems, which encourage federal intervention as the best means of achieving their specific objectives on a nationwide basis;
- an attitude of skepticism and distrust held by many federal officials regarding state and local administrative capacity and political decision-making processes coupled with a Congressional need for fiscal accountability in the use of federal funds;
- the fragmentation of political authority among specialized committees and subcommittees within Congress; and
- the extreme social diversity or pluralism of the United States, which encourages smaller

programs offering benefits to particular groups, rather than far-reaching, major innovations in public policy.

Not all of these factors may be equally influential, of course; various commentators would weight them differently. Some of them may also have been more important than others at various points in the nation's development.⁴⁹

In summary the historical review presented in the previous chapter and the several interpretations surveyed here suggest that the categorical grant is an expression of deeply rooted historical and contemporary conditions. Social and political pluralism, coupled with multiple centers of power and great national diversity and tensions, are major factors that have shaped the development of American intergovernmental assistance and resist its alteration.

FOOTNOTES

¹Office of Management and Budget, *Special Analyses, Budget of the United States Government, 1978*, Washington, DC, U.S. Government Printing Office, 1977, p. 273.

²See R.J. May, *Federalism and Fiscal Adjustment*, London, Eng., Oxford University Press, 1969.

³Charles L. Schultze, et al., *Setting National Priorities: The 1973 Budget*, Washington, DC, The Brookings Institution, 1972, pp. 394-95.

⁴Daniel J. Elazar, "Urban Problems and the Federal Government: An Historical Inquiry," *Political Science Quarterly*, 82, December 1967, pp. 519-20.

⁵James A. Maxwell, *The Fiscal Impact of Federalism in the United States*, Cambridge, MA, Harvard University Press, 1946, p. 381.

⁶Federal Security Agency, *The Principle of Equalization Applied to the Allocation of Grants in Aid*, Washington, DC, Social Security Administration, Bureau of Research and Statistics, September 1947, p. 16.

⁷These assumptions were made prior to the advent of the 89th Congress, it should be noted.

⁸For a brief discussion of the history of revenue sharing proposals, see Richard P. Nathan, et al., *Monitoring Revenue Sharing*, Washington, DC, The Brookings Institution, 1975, pp. 347-50. On the projected revenue-expenditure gap, see also Murray L. Weidenbaum, *Prospects for Reallocating Public Resources*, Washington, DC, American Enterprise Institute For Public Policy Research, 1967.

⁹Federal Security Agency, *op. cit.*, pp. 16-17.

¹⁰George F. Break, *Intergovernmental Fiscal Relations in the United States*, Washington, DC, The Brookings Institution, 1967, p. 63. Break's text provides a full discussion of the externality rationale for categorical grants. See especially pp. 63-68.

¹¹Wallace E. Oates, *Fiscal Federalism*, New York, NY, Harcourt Brace Jovanovich, Inc., 1972, p. 73. Oates comments that although these weaknesses are such that some might believe that the Pigovian prescriptions for intergovernmental grants to correct spillovers should be rejected entirely, his own view is that a case for such grants does remain in many instances.

¹²Charles L. Schultze, "Sorting Out the Social Grant Programs: An Economist's Criteria," *American Economic Review*, 64, May 1974, pp. 182-83. He defines "collective goods" as "those goods actually produced and distributed free (or at highly subsidized prices) by governmental organizations."

¹³Earl M. Baker, et al., *Federal Grants, the National Interest and State Response: A Review of Theory and Research*, Philadelphia, PA, Center for the Study of Federalism, Temple Univer-

sity, March 1974, p. 27.

¹⁴*Frothingham v. Mellon and Massachusetts v. Mellon*, 262 U.S. 447 (1923).

¹⁵Message from the President of the United States, *The Commission on Intergovernmental Relations*, U.S. House of Representatives, 84th Cong., 1st Sess., June 28, 1955, p. 123.

¹⁶Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System (A-31)*, Washington, DC, U.S. Government Printing Office, 1967, Vol. 1, p. 149.

¹⁷Charles L. Schultze, "Federal Spending: Past, Present, and Future," *Setting National Priorities: The Next Ten Years*, Henry Owen and Charles L. Schultze (eds.), Washington, DC, The Brookings Institution, 1976, p. 367.

¹⁸Phillip Monypenny, "Federal Grants-in-Aid to State Governments: A Political Analysis," *National Tax Journal*, 13, March 1960, p. 15.

¹⁹*Ibid.*

²⁰Deil S. Wright, *Federal Grants-in-Aid: Perspectives and Alternatives*, Washington, DC, American Enterprise Institute for Public Policy Research, June 1968, p. 32.

²¹Selma J. Mushkin, "Barriers to a System of Federal Grants-in-Aid," *National Tax Journal*, 13, September 1960, p. 199.

²²*Commission on Intergovernmental Relations, op. cit.*, p. 122.

²³Delphis C. Goldberg, "Intergovernmental Relations: From the Legislative Perspective," *Annals of the American Academy of Political and Social Science*, 416, November 1974, p. 63.

²⁴"Wilbur J. Cohen: A Defender of Categorical Grants," *National Journal*, Dec. 16, 1972, p. 1912.

²⁵*Ibid.*

²⁶For example, see V.O. Key, Jr., *The Administration of Federal Grants to States*, Chicago, IL, Public Administration Service, 1937, pp. xiv, 368.

²⁷*Commission on Intergovernmental Relations, op. cit.*, p. 126.

²⁸For a summary of this view, see Roscoe C. Martin, *The Cities and the Federal System*, New York, NY, Atherton Press, 1965, especially Chapter 3.

²⁹Edward R. Fried, et al., *Setting National Priorities: The 1974 Budget*, Washington, DC, The Brookings Institution, 1973, p. 173.

³⁰Morton Grodzins, *The American System: A New View of Government in the United States*, Chicago, IL, Rand McNally & Co., 1966, p. 317-18.

³¹Charles L. Clapp, *The Congressman: His Work as He Sees It*, Washington, DC, The Brookings Institution, 1963, p. 149.

³²*Ibid.*, pp. 20-24.

³³Seidman's remarks are contained in Douglas M. Fox, "A Mini-Symposium: President Nixon's Proposals for Executive Reorganization," *Public Administration Review*, 34, September/

October 1974, p. 489.

³⁴Samuel P. Huntington, "Congressional Responses to the Twentieth Century," *The Congress and America's Future*, David B. Truman (ed.), 2nd Ed., Englewood Cliffs, NJ, Prentice-Hall, Inc., 1973, p. 22.

³⁵Gary Orfield, *Congressional Power: Congress and Social Change*, New York, NY, Harcourt Brace Jovanovich, Inc., 1975, p. 16.

³⁶Huntington, *op. cit.*, p. 24.

³⁷Michael J. Malbin, "Congressional Staffs—Growing Fast, But in Different Directions," *National Journal*, July 10, 1976, p. 958.

³⁸George Gordon, Jr., "Subcommittees: The Miniature Legislatures of Congress," *American Political Science Review*, 56, September 1962, p. 596.

³⁹Bruce I. Oppenheimer, "Subcommittee Government and Congressional Reform," *DEA News Supplement*, Summer 1976, p. S-8.

⁴⁰*Ibid.*, p. S-11.

⁴¹Richard E. Neustadt, "Politicians and Bureaucrats," *The Congress and America's Future*, *op. cit.*, p. 120.

⁴²The "subgovernment" system is discussed in *Chapter I* of another Commission report in this series: Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management (A-53)*, Washington, DC, U.S. Government Printing Office, February 1977.

⁴³Orfield, *op. cit.*, p. 262.

⁴⁴Jesse Burkhead, *Public School Finance: Economics and Politics*, Syracuse, NY, Syracuse University Press, 1964, pp. 237-38.

⁴⁵Orfield, *op. cit.*, pp. 126-27.

⁴⁶Burkhead, *op. cit.*, p. 265.

⁴⁷*Ibid.*

⁴⁸Jerome T. Murphy, "The Education Bureaucracies Implement Novel Policy: The Politics of Title I of ESEA, 1965-72," *Policy and Politics in America: Six Case Studies*, Allan P. Sindler (ed.), Boston, MA, Little, Brown and Co., 1973, pp. 162-65.

⁴⁹For a discussion of changes in the political basis of intergovernmental relations as the nation has developed, see Samuel H. Beer, "The Modernization of American Federalism," *Publius*, 3, Fall 1973, pp. 49-95.

Chapter III

The Role of Congress

Congress plays the central role in shaping the grant system. As with legislation generally, this is a dual role; Congress enacts a law and then undertakes to hold the administration accountable for carrying it out. The first role is a deliberative or policymaking function; the second is essentially an administrative one.

The first role—the lawmaking process—has several component steps. In the grants-in-aid field, it involves (1) choosing what Congress wants to accomplish; (2) deciding which grant instrument to use—allotted formula grant, project grant, formula-project grant, open-end reimbursement grant, block grant, special revenue sharing, general revenue sharing, or a mixture; and (3) designing the legislation to accomplish its purpose, incorporating the chosen grant instrument. The actual process, of course, rarely follows this logical sequence of steps.

Chapter II identified the structure and milieu of Congress as a principal cause of categorical grant proliferation. In the present chapter the first objective is to analyze in greater depth the impact of Congressional structure, environment and other factors on Congress' approach to choice of grant form—categorical versus block—and to grant design. Clearer identification of the forces that appear to influence decisions on these questions, and thereby help explain why Congress acts as it does, are sought. Such an understanding is indispensable for developing realistic proposals to modify existing legislation, if modification is needed.

The chapter's second objective concerns Congress' second role—its oversight responsibility for holding the administration accountable for grant implemen-

tation. Although some aspects of oversight are dealt with in other parts of the study, this chapter seeks to provide overall appraisal, identifying the institutional forces that influence the way oversight of grant administration is performed.

THE CHOICE OF GRANT FORM: CATEGORICAL VS. BLOCK

During decisionmaking Congress acts in response to both internal and external influences. The former consists of the internal structure—formal and informal (party) organization and procedures; the backgrounds, personalities, and ideological preferences of Congressmen;¹ and the norms (customs and traditions) that govern their behavior in Congress. The major external influences are voter constituencies, interest groups (public, private, and semi-private), and the Presidency and the executive branch.

Different observers draw different conclusions on how strongly these factors affect Congress' choice between categorical and block grants. Some might argue that the primary influence is a member's conviction about the relative potentials of the two grant types for dealing with the problems of minorities and the disadvantaged. Supporters of the Presidential leadership view of policymaking might assert that the President's role is decisive. Other analysts might see the balance tipped most strongly by still other factors. The following discussion makes no overall judgment on this matter. Neither is the order in which the factors are discussed intended to imply the relative weights of their influence.

Of all the forces exerting pressure on Congress, a few can be rather clearly identified as being on one side or the other of the block-versus-categorical issue. For others the net effect is not clear. To be able to distinguish which grant type is favored by the various influencing factors in the following discussion, the two grants are briefly defined. The block grant covers a wide range of activities within a broad functional area, affords recipients substantial discretion in identifying problems and designing programs to deal with them, and aims federally established requirements at keeping grantor intrusiveness to a minimum while recognizing the need to ensure that national goals are accomplished. The categorical grant, on the other hand, has a narrow functional scope, imposes detailed procedural and performance conditions, usually features close monitoring by the federal grant agency of recipients' compliance with the grant requirements, and focuses on specific national program objectives and assuring that those objectives are achieved.

The Presidency

The Presidency has been a principal influence on Congressional enactment of block grants. Presidents Lyndon B. Johnson, Richard M. Nixon, and Gerald R. Ford supported the movement toward such grants and improved grants management. In his 1966 health and education message to Congress, President Johnson proposed the first block grant—the *Partnership for Health Act*.² He also signed the second block grant into law, the *Omnibus Crime Control and Safe Streets Act*, although his administration, which initiated the proposal, had backed the categorical grant approach.³ Also under President Johnson the multifaceted effort to improve grant administration was initiated; this movement bore fruit in the administrations of his successors.

President Nixon pushed general revenue sharing and special revenue sharing in six functional areas. His administration collaborated in the development and final enactment of three block grants: community development, social services, and comprehensive employment and training (CETA).⁴ In addition, as part of his New Federalism, President Nixon took the lead in working for administrative simplification and standardization, a movement that continued under President Ford, although with less emphasis.

President Ford proposed four block grants in the fields of health, education, social services, and child

nutrition.⁵ During his campaign for the Presidency, President James E. Carter indicated that he would work for improved program management and for categorical grant consolidation.⁶ Thus the trend among recent Presidents clearly has been in the direction of grant consolidation and improved management of the grant system.

Where the President stands is important. First, he influences the legislative agenda and can muster powerful resources to get his program adopted, especially if his party controls Congress. Second, the President has leverage to restrain legislative enactments deemed objectionable by threatened or actual use of the veto. A case in point was President Ford's veto of Sen. Lawton M. Chiles' bill delineating acceptable uses of contracts, grants, and cooperative agreements in the disbursement of federal funds.⁷ Third, the President can push for grant consolidation and other administrative reforms by showing how categorical grants cause difficulties at the federal level and impact on state and local recipients. If he is sensitive to those problems, the President's office becomes a major force for solving them. If he ignores them he risks criticism for failing to use initiative and to make the most of the opportunities of his office.

Public Interest Groups

A cluster of public interest groups also support block grants because their goal in grants-in-aid legislation is basically for integration rather than categorization of programs. These groups include the national associations of state and local chief executives and legislators, such as the National Governors' Conference, the Council of State Governments, the National Conference of State Legislative Leaders, the U.S. Conference of Mayors, the National League of Cities, the National Association of Counties, and the International City Management Association.⁸ To those familiar with these organizations, they are known as the PIGs, the acronym for public interest groups (although the term public interest groups has come to embrace a wider spectrum of organizations, often consumer or grant recipient oriented).

The state and local governments represented by the PIGs are most familiar with the functioning of categorical grants, have to contend daily with their defects, and are the most vociferous in complaining about those defects, insisting that Congress and/or the administration take corrective action. They have

been aggressive in their appeal for more block grants and, most importantly, are the single most potent political force that worked for enactment of general revenue sharing (GRS) and its extension until 1980.⁹

The primary objective, however, of these public interest groups in seeking GRS was not the integration of separate grants but was the provision of additional money for state and local use. Their preference for money without strings reflects their dislike for the highly conditional character of categorical grants. However, GRS would have considerably less appeal for them if it meant merely the substitution of a general grant for a bundle of categorical grants totaling to the same dollar amount. Moreover they are hesitant to oppose, and may even favor, the initiation or renewal of a categorical grant if they judge that the chances of block grant enactment is slim and that insistence on that grant form might result in obtaining no grant money or a reduction in the amount previously received.

About the only place President Ford is finding support for his health grant consolidation plan is among elected state and local officials, who presumably would benefit from the additional flexibility that the block grant approach offers. Even within that group, however, there is concern among officials that folding Medicaid in with other categorical programs could leave some states, particularly those that offer higher benefits, with a shortfall of funds to meet program obligations.¹⁰

The PIGs, however, have demonstrated their high regard for integrating grants through support of the *Joint Funding Simplification Act* and its predecessor Integrated Grants Administration program, for renewal of existing block grants, and for the development of new consolidated programs. Although in the case of GRS their first objective is more money, they are by no means unconcerned about the need to move away from categorical grants.

Other Interest Groups

Except for the PIGs and other specialized associations of state and local officials (such as the Association of State and Territorial Health Officers, the National Association of State Budget Officers, and the Council of State Planning Agencies), most

interest groups are a strong external force supporting the categorical grant system. They reinforce the separatist tendencies of the Congressional committee system by seeking recognition or enhancement of their narrow functional concerns.

In pursuit of their program interests, these groups lobby the pertinent congressional committees for retention of their specialized jurisdictions, generally viewing grant consolidation as a threat to continued federal support for their programs.¹¹ The interest groups appeal to the Congressman's own specialized concerns and expertise as a committee member. They also are able, in many instances, to rally their supporters from among his/her local constituency and to help finance reelection campaigns.

Special interest groups also work closely with their allies in the bureaucracy—the agencies and bureaus responsible for administering functional programs—and appeal to their professional interests concerning the continuation of their special programs.¹² Bureaucratic functionaries are, of course, subject to control by their generalist, policymaking superiors, providing an opportunity for the President and his top appointees to influence the manner in which their subordinates represent the administration on Capitol Hill. A President intent on pushing block grant proposals can, for example, take steps to dissuade bureau and agency personnel administering categorical grants involved in a proposed consolidation from undercutting his proposals. Thus agency specialists cannot give unrestrained support to their categorical programs.

The Committee System

Within the internal structure and functioning of Congress, certain forces show an inclination to influence Congress one way or the other on the block-categorical grant issue. The committee system is one such force. Congressmen make their marks as national legislators largely by their performance as committee or subcommittee chairmen or members. For this reason and the accepted practice of collegial deference to the specialized competence of individual committees, the functioning of the various committees and subcommittees is kept vigorous and resistant to centralized and integrated control.

This decentralizing thrust is basically hospitable to the use of categorical grants. Problems addressed by a potential grant program tend to be defined within the functional (and subfunctional) jurisdiction of an individual subcommittee, encour-

aging the narrow categorical approach to problem solving rather than the broader, more integrated block grant approach.

STRUCTURAL AND PROCEDURAL REFORM

Over the past three decades, the forces of internal structural and procedural reform have leaned toward reduction in the number and power of committees. Beginning with the 1946 *Legislative Reorganization Act* (P.L. 79-601), these reform efforts have had an integrative effect, although not as great as hoped for by their sponsors. The reduction in the number of committees effected by the 1946 act helped somewhat to diminish the decentralized manner in which the two chambers conducted their business. Yet that achievement was gradually dissipated by the proliferation of subcommittees and the creation of select and special committees. Consequently committee reorganization became a major objective of the 1973 Select Committee on Committees in the House headed by Rep. Richard Bolling and the 1976 Temporary Select Committee to Study the Senate Committee System chaired by Sen. Adlai E. Stevenson III.

Although the Bolling Committee had only minor success in reorganization, the Senate acted on the Stevenson Committee proposals in early 1977 (S. Res. 4, 95th Congress), but going only about half as far as the original plan. Among its key changes were reducing the number of committees from 31 to 25 and eventually to 21 by the end of the 95th Congress; permitting each Senator to serve on no more than three committees and eight subcommittees; and revising committee jurisdictions to provide for more logical groupings of legislative responsibilities.

Other official actions also have made their mark. The various efforts to curb the power of the House Rules Committee, such as the expansion of committee membership and the formal adoption of the committee's own procedural rules, tended to reduce its importance as a separate power center in the House. The *Legislative Reorganization Act of 1970* (P.L. 91-510) achieved a number of procedural reforms, including opening up the legislative process to more public scrutiny through the requirement of teller votes in the House. The modification of the cloture rule and party conference approval of committee chairmen in the Senate also can be viewed as generally supporting more unified action because this move strengthened the hand of the majority.

Other structural actions also have advanced the

cause of integrating the legislative process. One major move was the 1974 establishment of a Committee on the Budget in each chamber and the Congressional Budget Office, implementing the *Congressional Budget and Impoundment Control Act of 1974* (P.L. 93-344 (31 U.S.C. 1301)). Earlier the 1946 *Congressional Reorganization Act* had called on both houses to develop an integrated Congressional budget, but aside from a feeble effort in the House, nothing was accomplished. Implementation of the 1974 act resulted in Congressional establishment of overall budget levels for FY 1977. This new approach to Congressional appropriations provides one important focus for efforts to integrate the many Congressional actions having a fiscal impact.

Another related development was the introduction of legislation (S. 2925) in the Senate during the 94th Congress calling for termination and reauthorization over a five-year cycle of any federal program requiring reauthorization or new budget authority. Termed the "sunset" law, this proposal would require legislative review of programs in functional clusters to facilitate consideration of interrelationships. This action would provide a clear integrating influence and possibly could encourage consolidation of related grant programs by bringing to Congress' attention the multitude of related programs and the differences among them. The proposal was reported favorably by the Government Operations Committee but was reported by the Rules and Administration Committee without recommendation on the last day of the session. Encouraged by widespread interest in this approach and the adoption of similar measures in state legislatures, sponsors of the measure reintroduced it in early 1977, modified to meet some of the objections raised in the 94th Congress.¹³

Finally, the work of the two subcommittees on intergovernmental relations have tended to exert a modest integrating influence on federalism issues in Congress. Their impact was registered through several series of hearings on the problems of grants management and GRS in the late 1960s and 1970s, and through the passage of legislation, including the *Intergovernmental Cooperation Act of 1968*, the *Intergovernmental Personnel Act* (for the Senate), and the *Joint Funding Simplification Act of 1974*.

Members' Aspirations

Because of ties to the committee system, the average member's career aspirations are inherently bi-

ased in favor of the categorical grant system. Yet career advancement is linked to the categorical grant in other ways. First, the Congressman has pride in authorship in sponsored programs, and categoricals provide more opportunities for sponsorship than block grants or consolidated programs. As one observer noted:

. . . the more programs there are, the more chances House members have to claim credit . . . for the local manifestations of them—housing grants, education grants, antipollution grants, etc.¹⁴

Second, by and large constituents are more interested in a Congressman's ability to serve in a material way than in his/her competence in broad policymaking or the rightness of positions on issues of principle, form, or structure.¹⁵ Such service is more easily personalized and made visible to the electorate by sponsoring or supporting specific narrow (categorical) programs than by championing a more general (block grant) approach. For example a Congressman is likely to gain more credit from constituents by cosponsoring legislation to help prevent lead-based paint poisoning among children than legislation covering the broad area of preventive health services. This bread-and-butter effect is one reason why a Congressman is unlikely to abolish categoricals, particularly those that have concrete impact in his/her own district.

Coalition Building

The Congressional leadership's effort to secure enactment of a legislative program also supports categorical grant programs. Because power is so decentralized, they cannot rely very heavily on hierarchical authority, party loyalty, and party discipline in mustering support for desired legislation. They have to use their negotiation resources, such as a promise of support for a member's pet project or program in exchange for a vote in favor of a measure that the leaders are seeking to promote. By deft tradeoffs of this kind, supplemented by use of other techniques of persuasion, leaders round up a majority vote for their legislative programs. By virtue of their number and usefulness in building voter appreciation, categorical grants are invaluable in this vital coalition-building process in Congress.

Ideological Preferences

Members' basic attitudes toward the public sector and the specific role of the federal government constitute still another influence on Congress' approach to the categorical-block grant issue. Indeed some observers regard this as the single most important influence.

The basic dichotomy is between conservatives and liberals. Both are found in each party, but the Republican Party generally is considered the home of the conservatives and the Democratic Party the home of the liberals.

Compared to liberals, conservatives favor less government and less intervention in the economy and society and more concern about deficit spending and efficient and responsible use of tax dollars. Relative to conservatives, liberals believe in a more active government with positive programs for dealing with social and economic problems and believe avoidance of deficit spending is secondary to financing those programs.

With their distrust of an expanding federal bureaucracy, conservatives prefer to retain authority at, or devolve it to, the state and local governments, which aligns with the broader discretion available under block grants. On the other hand conservatives' concern for strict accountability, their suspicion of the aggrandizing instincts of bureaucratic professionals working cooperatively between levels of government, and their concern for maximizing output for dollars spent inclines them toward more legislative strings on fiscal management—an attribute of the categorical grant system.

Liberals generally have more confidence in the performance of the federal bureaucracy than that of state and local governments. Being sympathetic to enactment of programs aimed at social problems, they also are concerned that federal funds clearly be used for the accomplishment of the objectives that Congress has specified in those programs. In many cases these programs are to assist minority and disadvantaged groups that do not have as strong a voice in policymaking at the state and local levels as they have at the national level.

. . . the philosophical opposition of many Democrats to the concept of the federal government having less control over how grant money is spent (in block grants as opposed to the traditional categorical grant programs) was noted, as was the fear that

turning over more responsibility to the states would result in lessening attention to the needs of groups such as the poor.¹⁶

Liberals are inclined, therefore, to place requirements in grant legislation to provide greater assurance that program objectives are attained.

Overall the conservative attitude is basically favorable toward the block grant on the issues of large versus small bureaucracies and centralized versus decentralized government, but favoring the categorical approach for purposes of fiscal accountability. Liberals seem more clearly disposed to favor categoricals because of their lesser trust in state and local governments and their greater desire to target federal funds on national objectives.

A 1973 survey of Congressmen's attitudes on issues related to GRS has some relevance to the liberal (Democratic)-conservative (Republican) ideological split. The pertinent questions and members' answers are shown in *Table III-1*.

In general Democrats clearly leaned more toward categoricals than Republicans. These survey results must be read, however, in light of the fact that Democrats dominated the Congress and the President was a Republican who had given strong endorsement to GRS and block grants.

Committee Staffs

Committee staffs can influence, in varying ways, attitudes in Congress regarding block and categorical grants. As professional facts-and-figures re-

sources, they can bring to Congressmen's attention objective data on documented experience with various features of grant design, to enable judgments on the merits insofar as such judgments are possible. Yet undoubtedly staff also wield some influence by advice, direct or indirect, that reflects their own pragmatic and philosophical preferences. What their preferences are regarding grant types and design can only be inferred from studies of their backgrounds and job relationships.

Their personal backgrounds yield mixed signals. Fox and Hammond's 1973-74 survey of committee aides found that 43.8% of those responding had worked in the executive branch at some point during their careers.¹⁷ That experience may have inclined them toward the continued use of categorical grants favored by the bureaucracy. Such an inclination probably was fortified by their relationship with the bureaucracy while serving as committee staffers. Fox and Hammond found that Senate committee staffs reported their contacts with the bureaucracy were exceeded in frequency only by their contacts with fellow committee staffs and Senators' personal staffs; House committee staffs contacts with the bureaucracy were exceeded only by those with fellow committee staffs. Representatives' staffs, and Representatives personally.¹⁸ This finding was confirmed by the fact that committee staffs reported relying frequently on executive departments for information, thus providing further evidence of the operation of two angles of the "functional iron triangles."¹⁹

On committee staff-executive bureaucracy linkages, Rochelle Jones and Peter Woll note:

Table III-1

Congressional Party Attitudes Toward General Revenue Sharing

In your opinion, does the federal aid system as presently constituted have:

	Democrats	Republicans
(a) Approximately the right mix of these three types of grants (categorical, block, GRS)?	17%	7%
(b) (1) Too heavy reliance on categorical grants?	23	71
(2) Too little reliance on categorical grants?	21	4
(c) (1) Too heavy reliance on broader-purpose block grants?	11	10
(2) Too little reliance on broader-purpose block grants?	35	45
(d) (1) Too heavy reliance on general revenue sharing?	36	8
(2) Too little reliance on general revenue sharing?	6	45

Source: Subcommittee on Intergovernmental Relations, Committee on Government Operations, House of Representatives, U.S. Congress, *Replies by Members of Congress to a Questionnaire on General Revenue Sharing*, 93rd Cong., 2nd Sess., April 1974, pp. 15-16.

The tremendous growth in committee staff—a 44.2% increase between 1970 and 1975—has created a Congressional bureaucracy which often has a vested interest in supporting its counterparts in the federal bureaucracy. When the FEA was due to expire in 1976, the 18 staff members of the Energy and Power Subcommittee of the House Interstate and Foreign Commerce Committee automatically backed its extension. Their jobs depended largely on the continuation of the FEA.²⁰

On the other hand 44.8% of the committee staffs responding had law degrees, indicating that their administrative assignments may have been more as generalists than specialists, and experience indicates that generalists are less likely than specialists to identify with categorical grants.²¹

Another factor conditioning the direction of committee staffs' policy advice on the block-categorical grant issue is their allegiance to the committee or subcommittee chairmen and to some extent to the ranking minority leader. Staff dependence on the committee leadership as the source of their appointment is one of the major constraints on their exercise of policy influence.²² In giving counsel and otherwise reflecting their own policy views, staff members are apt to defer to the leadership's policy preferences. Probably in most cases committee and subcommittee chairmen find categorical rather than block grants more congenial to the perpetuation of their power positions in the committee structure and to Congress' position generally.

Other forces exist that affect committee staffs' attitudes and activities on this issue. To draw any general conclusion on the overall thrust of staff influence is hazardous, lacking any data on staff background and behavior. But given the increasing professionalism of committee staffs, it is tempting to conclude that the most important conditioning factor is the degree to which experience and objective analysis can lead to a clear choice between the block and categorical alternatives, or at least can point the way to the circumstances under which one or the other is the preferred instrument.

Response to Outside Forces

Certain aspects of the internal structure and operations of Congress and the career motivations and ideological preferences of members affect Congress'

approach to the block-categorical grant issue. How are these affected by the outside forces: the President, interest groups, and voter constituency?

The influence of the President might be expected to be the key issue. This influence is maximized when he is a strong leader and his party constitutes the Congressional majority. If he demonstrates great initiative, cultivates his party leaders and other members in Congress by using his armory of rewards and penalties, he can have substantial impact, as displayed most dramatically by Presidents Woodrow Wilson, Franklin D. Roosevelt, and Lyndon B. Johnson in this century. Yet an activist President, a substantial majority in Congress, and a sympathetic Congressional leadership do not guarantee Presidential success. The party structures in the two chambers are imperfect vehicles for binding party members to party policies, whether coming from the President, the national platform, or elsewhere.

In the Senate the party organs are relatively weak due to the small number of Senators, their relatively high prestige as individual members, and the clubby atmosphere that prevails. More important than party structure, perhaps, are the character and style of the majority leader, with Senators Lyndon B. Johnson and Mike Mansfield illustrating the opposites of active and passive leadership, respectively.²³

Democratic leadership in the House has been strengthened somewhat by recent developments initiated by the Democratic Caucus. The use of seniority has been downgraded as the determinant of committee chairmanships; the power of individual chairmen to make assignments to and otherwise control subcommittees has been diminished; and the power of the Democratic members of the Ways and Means Committee to make committee assignments has been eliminated. The Speaker's authority has been enhanced by the weakening of these rival power centers as well as by his leadership role in the Steering and Policy Committee, which now is responsible for committee assignments. This committee consists of the Speaker, the majority leader, the caucus chairman, 12 members elected by the caucus to represent regions, and nine members appointed by the Speaker. The revitalization of the caucus itself has brought new vigor to the House party structure.

Yet the majority party's leadership is still considerably less potent than it was in the reign of "King Caucus" in the early 1800s and the era of Speakers Thomas B. Reed and Joseph G. Cannon at

the turn of the century. Although some of the more disintegrating influences that followed the Cannon dethronement have been curbed, the House leadership structure still is relatively diffused. The one institution that has clearly gained power on the Democratic side is the caucus. Yet it is basically an unwieldy vehicle for making and monitoring policy on a day-to-day basis with any degree of comprehensiveness.²⁴

Along with, and partly responsible for, the continuing weakened status of party leadership in the House is the independence from party influence derived from a member's elected status. Because a local constituency elects and reelects a Congressman to office, this is the only group with ultimate power over him/her (assuming that the rules of Congress are not violated to the point of seat denial or expulsion by colleagues). A member can resist pressures from outside sources so long as the constituency is not alienated, whether those sources are the Congressional party leadership, the President, or interest groups.

Congressmen are concerned about pleasing their constituents in carrying out their Congressional duties. They spend a considerable share of their own and staff resources in "case work"—dealing with specific constituent problems—as compared with that spent on legislative matters of general national interest. This primary interest of pleasing the local electorate—a matter of political life and death for Congressmen—tends to weaken party control over their conduct in pursuing their legislative duties.²⁵

Party leadership in Congress continues to rely on a system of negotiation and compromise to conduct business.²⁶ The President has various benefits he can dispense to support and supplement the leadership's efforts in negotiation, and some may be useful for direct wooing of local voters, as in the case of federal projects creating local employment. Yet opportunities and resources are limited for swaying the constituencies of 50 states and 435 Congressional districts. As his party's leader the President has only modest leverage at election time on dissident party members in Congress.

Separation of Powers and the Federal System

The difficulty of the Presidency and the Congressional party leadership in leading Congress on grants-in-aid and other issues traces back to the constitutional separation of powers and the federalized

election system. Basic legislative authority is vested in Congress and basic executive power is vested in the President, with each having a role in the other's functional area due to checks and balances. This system of partially separated, partially shared powers, buttressed by fixed and overlapping terms and by separate independent constituencies, clearly provides no clear fusion of responsibility to govern as is demonstrated in the parliamentary system, where the chief executive is chosen from the majority party (or coalition) in the legislature and stands or falls with his/her party.

As the need for vigorous national action on both domestic and foreign fronts steadily rose during the nation's history, the country looked increasingly to the President for leadership, and the power of the Presidency and the bureaucracy grew. This situation created steady, long-range pressure for the executive and legislative branches to align more closely in some state of operational harmony, with Congress gradually yielding more legislative initiative to the White House. Yet close cooperation of the two branches always has been vulnerable to structural disharmony caused by separation of powers.

First, because Congress has express constitutional powers to legislate, the President cannot assume, no matter how urgent the need for action, that he is the unquestioned leader in establishing the legislative agenda. However clear a mandate he might have from the voters, he can exercise that mandate only by maintaining the respect and cooperation of Congress, especially its majority party. Second, checks and balances are built into the Constitution, such as the President's veto power, the Senate's power to confirm Presidential appointments, and Congress' authority to establish the structure of the federal bureaucracy. Third, the federal electoral process lends little unifying force to Congress and the Presidency. The President is elected nationwide (by states through the electoral college), whereas Senators and Representatives are elected from local districts or states in which national party issues frequently are subordinate to more parochial and personality considerations. And finally the system occasionally produces a President who belongs to the party of the Congressional minority, as in the case of the three most recent Republican Presidents, who faced an opposition Congress 14 of their combined 16 years. In those cases party loyalties may sharpen the division, rather than help bridge the gap created by the separation of powers.

The separation of powers and the federalized electoral system thus create many structural impediments to the imposition of an integrating force on Congress from the most logical outside source—the most powerful source of legislative leadership—the President. This condition provides the basis for the strength of the individual committees and the other dispersive influences in Congress, and in turn establishes an atmosphere favorable to categorical grants and not especially conducive to the integrative forces that might lead to more block grants.

Summary

Recapitulating this analysis of the forces affecting Congress' inclination toward the block or categorical grant form, the following have tended to make Congress receptive to the block grant and grant consolidation: the Presidency generally and Presidents Johnson, Nixon, and Ford specifically; the national associations of state and local elected executives and legislators, although some ambivalence may be shown if total aid amounts are jeopardized; internal structure and procedural reforms of the past 30 years that led to the curbing of the number and power of committees and other features tending to decentralize power; and the ideological preference of the Republican Party.

Strengthening Congress' long-standing reliance on categorical grants are: the basic ideological emphasis of those most concerned about the problems of minorities and the disadvantaged, which generally is the Democratic Party; the committee and especially the subcommittee system within Congress; special interest groups; functional specialists within the bureaucracy; categoricals' value to members in building constituency support; and their value to the leadership in the coalition-building process.

The President's success in achieving adoption of his legislative agenda depends in part on which party holds the Congressional majority. Even when it is his party, the weakness of the leadership's influence over the official and party structures handicaps the President's leadership efforts.

Recent reassertion of greater authority by the House Democratic Caucus has reduced the traditional power of committee chairmen. What this situation implies for integrated attention to the problems of grants-in-aid is problematical, however. Some of the most avid supporters of strengthening the Democratic Caucus would not favor using the caucus to bind members on policy issues.

Professional committee staff are growing in number and influence in Congress, but their effect on Congressmen's stance on the basic grant issue is unclear. The forces that impinge on staff attitudes toward this issue are mixed and sometimes contradictory.

In the final analysis the weakness of the parties as integrating forces in Congress and the consequent difficulty of the President in achieving support for programs stem from the constitutional separation of powers, the federal character of the electoral system, and the continuing—if not expanding—diversity and divisions within the American body politic. These influences weigh heavily in favor of decentralized power in Congress. Along with the basic ideological preference of liberal Congressmen for specific, narrowly based assistance programs, these influences provide a congenial environment for the categorical approach to grants-in-aid.

CONGRESSIONAL APPROACH TO GRANT DESIGN

In examining the question of Congress' design of grants, the focus is on those conditions that sharpen Congressmen's interest in and understanding of grant administration and enhance their empathy with the management problems of grant administrators, both grantor and grantee.

Features of Good Design

A well designed grant program statute would probably include the following: clearly defined and consistent program purposes; tight definition of appropriate program recipients and eligibility conditions; clear specification of the scope of administrative discretion; an allocation formula and/or matching ratio consistent with the statutory purpose; authorization and appropriation adequate to achieve the purpose; appropriation for administration and authorization for staff adequate for implementation; and performance requirements consistent with program purpose. Furthermore the legislation would reflect Congressional sensitivity to possible program impact on state and local governments, probably manifested by consultation with state/local governments prior to enactment.

Some forces influencing the legislative process would not fully endorse these criteria of grant program design. For example some federal administrators holding a low opinion of state-local manage-

ment capacity and a high opinion of federal agency competence would prefer a hazy specification of administrative discretion, permitting greater federal administrative discretion. In many instances their position might well be supported by various Congressmen and interest groups.

By and large, however, disagreement would be minimal over these model criteria among groups influential in the legislative process. On the critical issue of the clear statement of legislative intent, for example, Congress recently showed determination to improve its performance. The *Congressional Budget and Impoundment Control Act of 1974* (P.L. 93-344), Section 702, directed the Comptroller General, on request from any committee or joint committee, to assist in "developing a statement of legislative objectives and goals and methods for assessing and reporting actual program performance in relation to such legislative objectives and goals."

Practical Difficulties

In practice difficulties arise in obtaining Congressional respect of statutory design criteria. Congress may feel impelled to take action on a problem before sufficient knowledge and expertise is acquired to draft a bill meeting these criteria in all regards. As Allen Schick notes:

Legislators often are provoked by a sense of a problem, not by some firm objective. They perceive something awry, are moved to legislative remedy, but do not have a precise notion of what the future should be, except that they want the problem eliminated.²⁷

Herbert Roback puts this problem in a grander perspective in commenting on the related difficulties of evaluation:

... legislative measures directed to the alleviation of economic and social ills are symbolic as well as practical. Today's knowledge and resources never are adequate to tomorrow's goals of the good life—a decent home for every family, equal opportunity for all Americans, and so forth. Symbols of the good life have universal appeal, transcend political differences, and improve the chances for legislative enactment. To pull in the reins

of aspiration merely for the sake of better program evaluation is not the politician's way.²⁸

As Roback suggests social programs are particularly the area in which many unanswered questions exist about the causes of and solutions to problems and in which Congress frequently has been moved to act before totally ready.

Even if the necessary knowledge and expertise exist to draft a sound piece of legislation, difficulties may arise among contending forces about the meaning of good design criteria in the specific situation. The bureaucracy and Congress as well as recipient governments, for instance, probably would dispute authorization and appropriation criteria—whether they are adequate to achieve a program's stated purpose or adequate to finance necessary staff. Within one single group, the PIGs, differences might arise over whether apportionment formulas and/or matching ratios were consistent with legislative intent, depending on which type of jurisdiction seemed to be favored or harmed by the mathematics of the distribution employed. Congressmen themselves would have a range of views on these fiscal issues, reflecting interest in assuring that their own constituencies are treated fairly by federally aided activities.

Congress may choose to ignore one or more principles of sound statutory design for its own coalition-building purposes. This reason may be why it combined several incompatible objectives into a single program under the small business loans portion of the *Economic Development Administration Act*, as reported by Jeffrey Pressman and Aaron Wildavsky:

Implementation is made difficult when experience reveals that legislators want incompatible things. They want to help people in areas of low employment by attracting new industries or expanding old ones. But they do not want to subsidize competitors against their own people. When their constituents complain that government funds are being spent to support business competitors, the Congressmen naturally write in provisions stating that aid to industry must not compete with existing firms. Since most conceivable enterprises compete in some way with others, the dilemma is passed on to the administrators

who discover that they cannot apply the criteria with any consistency. This is one moral of the Economic Development Agency business loans program.²⁹

The Legislative Imperative: Compromise

Despite the existence of all the knowledge, will, and sound analysis to develop a bill that meets the standards of good statutory design, the biggest obstacle remains: to bring such a proposal through the legislative process unscathed. Invariably some members will be uninterested or opposed to the bill, and when they are a majority, the bill has to be changed for successful passage. Modifications that destroy good design features are probably the easiest changes made in the coalition-building process. Roback comments on how the statement of legislative intent suffers during this stage:

No doubt laws can be written to state more clearly what legislators have in mind, what results they expect, and how these results ought to be measured. As many commentators have observed, however, the legislative process does not lend itself readily to precise declarations of Congressional intent concerning program objectives. Legislation is compromise and accommodation. Obscurity in language often is the price of legislative success. Busy chairmen are more intent on keeping the political machinery oiled for acceptance of their bills than in tinkering with legislative refinements wanted by program evaluators.³⁰

Three target grant programs—Model Cities, Appalachia, and the poverty program—are prime examples of legislation that was substantially modified in order to build a voting coalition strong enough to ensure enactment.

In the instance of Model Cities, the program grew from the handful of demonstrations originally contemplated to two rounds of awards involving 150 cities. Target neighborhood restrictions at the community level were progressively relaxed. The Appalachian region as first defined in the [President's Appalachian Regional Com-

mission] PARC report was far larger than the area of most severe distress. It grew in size during Congressional debate and has grown somewhat since. Moreover, the political coalition-building needed to secure passage led to the creation of Title V commissions elsewhere in the nation. More local "growth areas" have been recognized than purely economic criteria would suggest, and the procedures for investment concentration have not been adhered to fully. The administrators of community action embarked on a nationwide program, rather than limiting participation to the most needy counties in each state, in part because of the need to maintain Congressional support.³¹

Another analyst provided other insights into the compromises required to secure enactment of the Model Cities legislation:

... the reception of the new proposal on Capitol Hill was chilly. Members of the Congress objected to the length and cost of the commitment they were asked to make for so experimental a program—\$3 billion for a six-year effort—and they shied from the integrationist implications of the proposal, including an explicit provision that housing programs aided under the act have elimination of segregation as an objective. After accepting some amendments and by dint of intensive lobbying, the administration managed to win approval of the proposal, by a comfortable majority in the Senate, but by a margin of only 26 votes in the House. The authorization was reduced from six to three years and the funds scaled down accordingly. The housing integration provision was dropped, and an amendment was accepted that prohibited HUD from requiring school busing as a condition of assistance. But except for elimination of the federal coordinator for each city, the organizational scheme and coordinating concepts outlined in the President's message were accepted by the Congress.³²

Similarly Randall B. Ripley explained how the Area Redevelopment Administration (ARA) legis-

lation, the precursor of the Economic Development Agency, had to be altered to attract a sufficient coalition of Congressional supporters.

Between 1961 and 1963, Republican Congressmen had become increasingly hostile toward the Kennedy Administration, and they held many specific grievances, both real and imagined, against the ARA's programs, policies, and practices. One of the Republicans' most common complaints was that the programs aided mostly Democratic Congressional districts; the program was viewed as a political plum for the Democratic party by many Republican Congressmen.

In general, the Congressional coalition supporting federal aid to depressed areas was put together and maintained by expanding the number of areas that could be labeled "depressed" and thus be made eligible for aid. The ARA provided a classic illustration of subsidy in that its legislative coalition was maintained by the device of distributing its benefits progressively more widely. Urban and rural areas were both included, as were localities in all sections of the country. The definitions of eligibility were first broadened in Congress, and when the Area Redevelopment Administration began functioning it treated even these broad criteria generously until ultimately about one-third of the nation was eligible to receive aid. Late in its career, the ARA extended itself even further by declaring seven major cities targets of its programs.³³

Thus Congress' strong impulse to solve problems without knowing exactly what needs to be done or what will work; the difficulties in obtaining agreement on the required statutory design criteria in specific cases, particularly in regard to fund distribution; but, above all, the practical necessities of compromise on complicated and controversial issues in order to muster majority support all pose obstacles to the writing of grant legislation that can be clearly and effectively implemented.

A President anxious to promote his legislative program has to confront the same pressures that influence Congress to do less than an ideal job when designing legislation. He may, therefore, sign a bill

that is more obscure or ambiguous in purpose than preferred, as the price of program enactment. He also might accept other departures from the design criteria for similar reasons.

The same holds true for the other parties influencing the legislative process, specifically the interest groups. In the give-and-take of lawmaking, standards of statutory design are readily compromised when the quid pro quo is an acceptable law.

Separation of Powers Effect

A relationship exists between the constitutional separation of powers and a Congressman's interest in grant design questions. Unlike the parliamentary system, the Congressman is not tied to the fate of his/her party and, therefore, may not be as concerned that programs are manageable—problems of grant administration would not reflect on Congress as directly as they would on a parliament. This divorcement of responsibility tends to provide less incentive for Congressmen to be concerned with the successful implementation of grant programs and therefore with the workability of the authorizing legislation.

Even when the Congressional majority and the President are political allies, the separation of administrative from legislative responsibility reduces the degree of attention given in the legislative process to questions of administrative feasibility—an aspect both of the administrative amateurism of Congress and its lack of responsibility and accountability for administrative results.³⁴

Separation of powers also affects a Congressman's personal interest in the manageability of grant programs in another manner. Under the parliamentary system the cabinet members are drawn from the legislature. With this in mind some legislators have an incentive to be more conscientious in passing legislation or questioning its implementation. Under our system members of the President's cabinet or other top appointees occasionally come from Congressional ranks, but often not, because for one reason, it means giving up a seat in Congress. Congressmen therefore lack their parliamentary counterparts' motivation to adopt a more probing attitude toward the effectiveness and manageability of grant programs.

Prior State-Local Experience

Another factor possibly affecting the Congressman's approach to the task of grant design involves prior experience at the state and local levels of government. To obtain a picture of this experience, the backgrounds of members of the second session of the 89th (1966) and 94th (1976) Congresses were compared using the biographical data in the respective *Congressional Directory*.³⁵ The data reveal that about two-thirds of the Representatives and almost three-fourths of the Senators had served in one or more state or local posts prior to election to Congress. Furthermore, the members of the 94th Congress had had more such prior governmental experience than the members of the 89th Congress. One therefore might expect that Congress would be sympathetic to the viewpoints of state and local officials, their complaints about grants-in-aid problems, and their proposals for remedies.

Whether prior experience in state and local office has had this effect is impossible to determine without more research, including cross-section interviews of Congressmen. From their reading of the record, those critics who believe that Congress has shown no increase in sensitivity to grant administration problems might cynically conclude that greater familiarity with recipients' grant problems increases insensitivity. More charitable critics might conclude that the grant system is becoming more difficult to cope with, otherwise Congressmen with earlier exposure as state and local officials would be better able to offer legislative solutions. On the other hand some observers might conclude that the slow but steady Congressional support for block grants and GRS and for legislation simplifying grant administration, despite continuing use of poorly designed categoricals, demonstrates that Congress is responding positively to the need for better grant design and that the increasing proportion of Congressmen with prior state and local experience may be partly responsible for this improvement.

Summary

Congress has demonstrated an increased awareness of the need to adhere more closely to criteria of statutory design. But following such criteria in a grant program statute is diminished by the nature of the legislative process. Although that process is deliberative, it is also political and symbolic. Anxious to respond to needs, Congress is often not sure what

will meet those needs. Sometimes, out of honorable impulses, it seeks many good but incompatible objectives in the same piece of legislation. Most importantly, during the coalition-building process to achieve enactment, preferred design features are frequently compromised.

The outside influences on lawmaking identified earlier are probably just as dedicated to good legislative design as Congress, although with different outlooks on particular elements of that design. Interested groups, the bureaucracy, and the President may be more dedicated because of their more immediate relationship to grant implementation. Yet for practical considerations—passage of the grant programs—they are, by and large, probably just as willing as Congress to accept grant legislation that is not as well designed as desired.

Apart from the imperatives of the legislative process, Congress' interest in good design also is undermined by certain aspects of the constitutional separation of powers. The relatively loose party ties between the Presidency and Congress allows Congressmen to feel little responsibility for the implementation problems faced by the executive branch. The same reaction arises from the infrequency, compared to the parliamentary system, with which members of Congress can hope for appointments in the administration.

CONGRESSIONAL OVERSIGHT

Following enactment of legislation, Congress has a second function to perform—oversight of the grant program's implementation by the executive branch. This section provides a brief description and appraisal of Congressional oversight, with particular reference to grants-in-aid, and identifies the institutional forces that influence this performance.

Definition

Some oversight activities began in the early 1800s, but the first piece of legislation that formally identified this Congressional function was the *Legislative Reorganization Act of 1946*. It states:

To assist the Congress in appraising the administration of the laws and in developing such amendments or related legislation as it may deem necessary, each standing committee of the Senate and the House shall exercise continuous watchfulness of

the execution by the administrative agencies concerned of any laws, the subject matter of which is within the jurisdiction of such committees; and, for that purpose, shall study all pertinent reports and data submitted to the Congress by the agencies in the executive branch of the government.³⁶

The 1946 act made a three-way division of the responsibility for exercising "continuous watchfulness." The authorizing committees were given principal responsibility for legislative oversight of programs and agencies under their jurisdiction; fiscal review was assigned primarily to the Appropriations Committees; and wide-ranging investigative oversight was granted to the Government Operations Committees. The authority of the latter to study the "operations of government activities at all levels with a view to determining its economy and efficiency" empowered them to conduct investigations cutting across both agency and committee jurisdictions.³⁷

The House Select Committee on Committees in 1974 provided further specifics on what Congress intends to accomplish by oversight:

...it is through this function that the House and its committees (1) monitor compliance with program objectives established by Congress, (2) determine whether agencies are properly administered, (3) eliminate executive waste and mismanagement, (4) prevent agency usurpation of legislative authority, (5) insure that executive policies reflect national needs and goals, (6) make cost-effectiveness comparisons of diverse programs designed to meet similar needs, and (7) conduct systematic review of government programs and activities to determine whether they should remain in existence or whether they can and should be reduced in size and scope, or eliminated.³⁸

In a recent publication the General Accounting Office (GAO) used the following definition: "Congressional oversight involves monitoring to insure that the laws enacted by the Congress are appropriate, competently administered, helping to achieve intended purposes."³⁹

The broadest definition is probably that offered by Morris S. Ogul: "... behavior by legislators and

their staffs, individually or collectively, which results in an impact, intended or not, on bureaucratic behavior."⁴⁰ This definition incorporates special emphasis on latent as well as manifest activities.

Evolution of Oversight Authority

Since formal recognition was made of oversight in 1946, Congress has taken a number of legislative steps to strengthen this function. The reforms, or proposed reforms, of recent years received particular impetus from the drive to regain from the executive branch control over policymaking, which Congress believed it had surrendered during the Vietnam and Watergate traumas.

With the *Intergovernmental Cooperation Act of 1968* (P.L. 90-577, Sec. 601), Congress moved in the area of grants-in-aid. Under the act committees are required to review grant-in-aid programs that have no expiration dates and to report (1) whether the programs are meeting their intended purposes, (2) the extent to which the objectives could be met without further government assistance, (3) whether any changes in the programs are necessary, and (4) whether the programs are adequate to meet the growing and changing needs they were intended to support. All programs existing prior to this legislation's enactment are to be reviewed by committees within four years; all programs subsequently enacted are to be reviewed within four years of passage.

The *Legislative Reorganization Act of 1970* (P.L. 93-510) converted the Legislative Reference Service of the Library of Congress into the Congressional Research Service (CRS) and required it to make experts available to committees to evaluate legislative proposals. CRS also was directed to furnish committees at the opening of each new Congress with a list of laws under their jurisdictions that are due to expire during the Congress, with a list of subjects and policy areas that committees might profitably analyze in depth. Committees were admonished to revise and study administrative actions on a continuing basis. The act also directed GAO to review and analyze, on its own initiative or on order of either chamber or a committee, the results of government programs and activities, including the making of cost-benefit studies. Finally all committees except those on appropriations, administration, and standards and conduct were required to report on their oversight activities at the end of each Congress.

The *Congressional Budget and Impoundment Control Act of 1974* (P.L. 93-344), in addition to strengthening Congressional control over spending, tightened oversight in several ways. It empowered committees to evaluate federal programs, agencies, or laws through outside assistance or the affected governmental agency. GAO was directed to develop and recommend methods for program review and evaluation, set up an Office of Program Review and Evaluation, and assist committees in developing statements of legislative objectives. The Treasury Department and the Office of Management and Budget were required to provide information on federal programs and spending to committees, GAO, and the Congressional Budget Office.

The most recent legislative action strengthening House oversight authority came as the result of the work of the 1974 Select Committee on Committees. This committee's work was reviewed and its recommendations revised by a special committee established by the Democratic Caucus. The revised recommendations were finally adopted by the House via a resolution (H. Res. 988 (1974)) that gives House legislative standing committees the choice of creating an oversight subcommittee or requiring each legislative subcommittee to carry out oversight activities.⁴¹ It also gives seven committees (Budget, Armed Services, Education and Labor, Foreign Affairs, Interior and Insular Affairs, Science and Technology, and Small Business) authority to cross jurisdictional lines in oversight investigations. Finally the oversight role of the Government Operations Committee is strengthened and tied more closely to the other committees. The committee is required to report to the House at the beginning of each Congress on the oversight plans of all the standing committees and is given unequivocal authority to investigate subject areas under the jurisdiction of other committees. Moreover authorizing committees are directed to be cognizant of pertinent review findings and recommendations made by the Government Operations Committee.

The initial recommendations of the Temporary Select Committee to Study the Senate Committee System in September 1976 contained several proposals affecting oversight. As finally adopted by the Senate (S. Res. 4, 95th Cong.), the new rules explicitly extend the jurisdictions of most standing committees to include "study and review on a comprehensive basis," as well as legislative authorization.

Scope of Activities

Under the rubric of "oversight," Congress carries on a variety of activities. CRS prepared for a Senate subcommittee a list that includes the following: legislative investigations, hearings and meetings, Congressional veto, audits, program review and evaluation, reporting requirements, appropriations, program authorizations, confirmation of apportionments, impeachment, nonstatutory controls (committee reports, floor statements, personal contacts, etc.), and casework.⁴² These seem to span the latent as well as manifest type of activities stressed by Ogul. The following brief elaboration draws heavily on the CRS description.

LEGISLATIVE INVESTIGATIONS

In the Supreme Court's most recent pronouncement on Congress' investigative functions—*Eastland v. United States Servicemen's Fund* (May 27, 1975)—Chief Justice Burger wrote:

This court has often noted that the power to investigate is inherent in the power to make laws because "(a) legislative body cannot legislate wisely or effectively in the absence of information respecting the conditions which the legislation is intended to affect or change." (*McGrain v. Daugherty*, 273 U.S. 175 (1927)).

Committee investigations help to insure the honesty and efficiency of program administrators; secure information that helps Congress make informed judgments on policy matters, thereby lessening dependence on the executive branch; and inform public opinion about the administration of laws or the conduct of public officials.

An investigating committee may be any special, select, standing, or joint panel empowered to conduct inquiries. Its principal purpose is to search or inquire into an area rather than draft legislation, although that may be a byproduct. As noted earlier the 1946 *Legislative Reorganization Act* specifically contemplated having the two Government Operations Committees perform investigative oversight.

Hearings in the field (out of Washington) are one of the principal investigative techniques. Another is the use of the three legislative agencies: GAO, CRS, and the Office of Technology Assessment (OTA). Congressional investigations are the first priority of

the GAO. It conducts audits of executive accounts and helps in improving the management of federal programs and operations. CRS serves as a nonpartisan research agency for Congress. OTA assists Congress in examining complex technical issues. All three agencies also may lend staff aides to assist standing committees on specific projects.

Some close observers express reservations about the effect of these agencies' services on the oversight process. Doubt is voiced about the use to which their work is put by the committees, rather than its quality. A frequent complaint is that members do not read the well prepared, carefully researched reports that are presented to them.

HEARINGS AND MEETINGS

Many opportunities for review of executive operations inherently exist during regular legislative hearings that are not called specifically for oversight purposes. Executive branch officials usually testify during hearings on proposed bills affecting their agencies' operations or at budgetary and appropriations hearings on their agencies' financial needs. Officials also are called as witnesses when committees consider other policy matters.

Several types of special oversight hearings exist. One is the periodic program overview conducted by standing committees for the administrative agencies within their purview. According to CRS this periodic overview is becoming more widely accepted. A second type, not used greatly so far, is official committee review of the rules, regulations, plans, and agreements that executive agencies formulate. When such sessions are held—even if infrequently—they can help remove doubts about legislative intent and provide a forum for official explanations. A third type of hearing focuses on the manner in which a particular act has been administered—for instance, food stamps, highway safety, and disaster relief. A fourth type examines the administration of broad programs in order to focus attention on the interrelationship and interdependence of scattered individual elements. A final type of hearing is used for special Congressional investigations.

CONGRESSIONAL VETO

“Congressional veto” is a generic term used to cover a wide range of statutory devices by which Congress establishes a program but retains legal authority to approve or disapprove elements before

final implementation. The statutory veto provisions commonly require the executive to draw up proposed actions to be taken in accordance with the statute and submit them to Congress, either of its houses, or one or more of its committees within a specified time, usually 60 or 90 days before those actions are to take legal effect. The proposed action goes into effect at the end of the specified period unless Congress either vetoes the proposal or, in a few cases, approves it by affirmative action. Attention was focused on this technique in 1976 in H.R. 12048—a bill that would have subjected all proposed rules and regulations to Congressional veto and, therefore, had major implications for grant-in-aid programs. The device has been used to control other executive decisions, such as the employment of troops overseas and the construction of certain public works projects.

AUDITS

The audit enables Congress to hold executive officers to a strict accounting for their use of public funds and their administrative conduct. Besides checking and verifying accounts, transactions, and financial statements, audits increasingly include an evaluation of whether claimed achievements are supported by adequate facts and comply with legislatively established objectives, and whether resources are being used efficiently, effectively, and economically.

GAO is the chief auditing agency of Congress, originally given this function by the *Budget and Accounting Act of 1921*. The function was expanded to include review and evaluation by the *Legislative Reorganization Act of 1970* and the *Budget and Impoundment Control Act of 1974*. With limited exceptions, GAO's auditing authority extends to all activities and financial transactions and accounts of the federal government. Grant-in-aid activities frequently come under GAO's audit scrutiny.⁴³ In audits as well as in other areas where GAO serves Congressional committees in their oversight role, facts imply that GAO's contribution is not being fully exploited, in most cases due to failure by members and staff to read the GAO reports.

REVIEW AND EVALUATION

“Evaluation” is determining the effectiveness of particular programs. This function is receiving a great deal of attention currently because of: social

scientists' entry into the public policy arena; the expansion of social programs at all levels of government; Congressional attempts to reconcile the need for restraining the federal budget while adequately funding social programs; and the increased attention to management productivity in the executive branch. The need for evaluation studies is recognized specifically in the *Budget and Impoundment Control Act of 1974*.

Most experience with evaluation has been in the executive branch, where management has used it in policymaking, budgeting, and program management activities. Because a need exists for this practice to continue and to avoid duplication in Congress, some observers see Congress' role in evaluation is to make certain that executive branch evaluation remains objective.⁴⁴

REPORTING REQUIREMENTS

The Clerk of the House of Representatives listed over 1,100 executive branch reports that were due to be submitted to the 94th Congress. These reports vary widely in purpose, content, format, and utility for Congressional oversight. Many, particularly those that are routine annual reports, are of little use because of the loose and general language in which the report information is prescribed. When carefully designed, as in the case of the Housing Goals Report required by the *Housing and Urban Development Act of 1968*, they can be useful tools of legislative oversight.

THE APPROPRIATIONS PROCESS

The appropriations process affords an effective but specialized opportunity for Congressional review and surveillance of administrative agencies and programs. Each year the appropriations subcommittees of each chamber conduct extensive probes into the financial practices and needs of federal agencies. The published record of the hearings, running to thousands of pages, provides a detailed examination of how agencies spend their budgeted moneys.

This oversight task has become more difficult because the federal budget has expanded, lumping appropriations into even bigger accounts. Among the devices Congress has evolved to deal with this problem is to write policy directives or restrictions in appropriation bills or committee reports, or to require an agency to notify the Appropriations Committee

or Subcommittee before an action is taken. The Appropriations Committees rarely hold hearings other than for consideration of specific appropriations requests or related matters.

The appropriations process is conditioned by the new legislative budget process established by the 1974 *Budget and Impoundment Control Act*, which allocates budget authority and outlay amounts among the major budget functions. Authorizations also limit appropriations—and increasingly so because in recent years, Congress has turned to more use of annual authorizations. Annual authorizations reduce the time available for Appropriations Committee consideration and make the authorizing legislation the main policy and oversight vehicle.

Other limitations exist for the appropriations process to act as an oversight mechanism. A sizable and growing portion of the federal budget is not subject to annual Congressional review because it is in the form of permanent appropriations, including interest on the public debt, social security recipients, and civil service retirement payments. Another limitation is backdoor spending—that which bypasses the Appropriation Committees. Backdoor spending is of three types: borrowing authority, contract authority, and entitlement authority. A third limitation is uncontrollable expenditures, including public assistance and veterans benefits that undergo the appropriations process but whose payments are mandated by statutory formula. Such programs receive relatively little substantive review by the Appropriations Committees.

PROGRAM AUTHORIZATIONS

Comprehensive reviews of agency performance are most frequently undertaken by legislative committees in connection with authorization or reauthorization of new or existing programs, respectively. The need for a decision to create, extend, or terminate a program focuses attention on the issue of performance, either potential or past. When authorizations are limited to one year, the review comes on a yearly basis.

The lack of a termination point for some grants-in-aid was the Congress' motive to enact Section 601 of the *Intergovernmental Cooperation Act of 1968*. This section mandates a committee review every four years for grant programs that do not have a prescribed life. In practice, however, this provision has not been implemented, because the procedure lacks a triggering mechanism.

The significance of program authorization for oversight is further underscored by the proposed "sunset" legislation. This process hinges on a positive Congressional decision to continue a program that would otherwise be terminated, such decision to be based on a careful committee review of the program's performance record.

CONFIRMATION

The power to confirm nominations to executive branch positions is exercised by the Senate. Such nominations totaled over 66,000 in 1974, but most were for the military, foreign services, Coast Guard, Public Health Service, and other commissioned officer corps. The Senate, therefore, concentrates its attention on nominations to policymaking positions.

Confirmation hearings have a number of oversight uses, but above all they provide a forum for discussion of the policies and programs the nominee intends to pursue. Where his/her agency administers grants-in-aid, Senators invariably are interested in knowing the nominee's attitudes toward those programs and plans for improving them. These hearings afford a classic opportunity for trading confirmation for commitments. Once a nominee has been confirmed, oversight includes a followup process to insure that the nominee fulfills the commitments made during confirmation.

IMPEACHMENT AS A TOOL OF OVERSIGHT

Impeachment is not a conventional Congressional oversight tool but can be a technique of last resort when conventional oversight forms have failed. Impeachment offers Congress (1) a constitutionally mandated method for obtaining information that might otherwise not be made available by the executive; (2) an implied threat of punishment for an executive whose conduct exceeds acceptable limits; and (3) a degree of direct Congressional control over procedures and behavior of the judiciary.

Impeachment is a difficult instrument to use, and therefore such a step infrequently is made. But rare use makes it even more powerful, enabling Congress to focus extraordinary national attention on the allegations being investigated.

NONSTATUTORY CONTROLS

In contrast to directives or limits spelled out in law, certain controls are imposed through diverse

means, such as committee reports, floor statements, comments during hearings, personal contacts, and informal understandings or agreements.

Committee reports on proposed legislation, for example, frequently contain language setting forth the intent, expectations, and even the commands of Congress—ranging from simple urgings to outright mandates—with respect to the implementation of grants and other programs. Faced with clear expressions of intent, most executives will comply to the greatest extent possible or at least seek a mutually acceptable adjustment or compromise that will avoid bitterness and future recriminations.

When bills are introduced and committee reports are filed or called for consideration, members and chairmen invariably make extensive statements setting forth the objectives, scope, meaning, substance, and mechanics of the measures being advocated. These statements are one of the best accurate sources for assessing the real intent of the author. Colloquies or floor exchange, many arranged in advance, are used to further clarify the author's intent. These forms of communication can thus have an effect on the implementation of legislative policy, such as in the development of regulations to carry out grant programs.

Without the binding authority of law, nonstatutory controls' effectiveness largely depend on factors such as willingness to cooperate, absence of extreme partisanship, rationality of recommendations, clarity and certitude of communications, mutual respect, and administrators' fear of future program modifications or fund reductions.

CASEWORK

Constituent letters often inform Congressmen and their personal office staffs of problems and deficiencies in federal programs and administration. Some cases may involve individual problems, and when handled on a case-by-case basis, oversight is performed only in the narrowest sense. Other constituent problems, however, may stem from an agency procedure or an administrative interpretation that might be improved by change. Such cases provide a measurable oversight impact.

Where a pattern of complaints suggests some underlying difficulty with an administrative procedure, members sometimes call on the investigative resources of the GAO.

One part of the job of helping constituents involves public works projects, such as roads and

buildings, and economic development activities. Congressmen arrange and sometimes participate in meetings between local and federal agency officials and remain informed on work in progress. Related to this type of service is assistance provided to constituents in obtaining federal grants. To achieve this Congressmen sometimes have to learn about agency procedures, providing a valuable opportunity for oversight.

Staff and Support Agencies' Involvement

Congressional staffs play a major supporting role in legislative oversight, as confirmed in the Fox and Hammond 1974-75 survey, which asked committee and personal staffs to indicate how often they were involved in certain enumerated staff activities.⁴⁵ Senate standing committee staffs indicated that they engaged in investigation and oversight more than once a week but less than once a day; House standing committee staffs slightly more than once a week; and Senate personal staffs less than once a week but more than once a month. No figures were provided on House personal staffs. Of nine enumerated activities, the committee staffs reported pursuing only two more frequently than investigation and oversight. These two were responding to requests for information, and legislative research, bill drafting, and bill analysis. Senate personal staffs, on the other hand, ranked investigation and oversight next to the last in frequency among the six activities in which they were involved.

Despite these indications of active involvement in oversight, staffs' understanding of the requirements, processes, and resources for oversight apparently is limited. A 1975 survey of Senate staffs revealed that most of the respondents had little or no familiarity with the various oversight methods.⁴⁶

To help overcome these shortcomings and to raise the level of awareness and debate on major issues, CRS, at the request of the chairman and ranking minority member of the Senate Government Operations Subcommittee on Reports, Accounting, and Management, conducted a seminar series in May 1975 on legislative oversight and evaluation.⁴⁷

Supplementing the oversight activities of committee staffs are the three support agencies of Congress, which have taken on increasing importance in this area in recent years: GAO, CRS, and OTA. The oversight responsibilities of GAO and CRS assigned by the *Legislative Reorganization Act* of 1946 and 1970 and the *Congressional Budget and*

Impoundment Control Act of 1974 were described earlier. OTA was established by statute (P.L. 92-484) in 1972 with the basic function "to provide early indication of the probable beneficial and adverse impacts of the application of technology and to develop other coordinate information which may assist the Congress." Assessment activities undertaken by OTA may be initiated upon the request of the chairman of any standing, special, select, or joint committee.

Problems

Despite all the heightened Congressional interest, as demonstrated by recent efforts to strengthen formal authority and capacity, there seems to be general agreement that oversight has been disappointing.⁴⁸ The one reform directed specifically at grants-in-aid—Section 601 of the *Intergovernmental Cooperation Act of 1968*—has been completely ineffectual. Surveying the entire oversight scene, Ogul states:

There seems to be consensus in the Congress on the principle that extensive and systematic oversight *ought* to be conducted. That expectation is simply not met.⁴⁹

He finds that one reason lies in the nature of the expectation:

The plain but seldom acknowledged fact is that this task, at least as defined above (i.e., in the 1946 *Legislative Reorganization Act*), is impossible to perform. No amount of Congressional dedication and energy, no conceivable increase in the size of committee staffs, and no extraordinary boost in committee budgets will enable the Congress to carry out its oversight obligations in a comprehensive and systematic manner. The job is too large for any combination of members and staff to master completely. Congressmen who feel obligated to obey the letter of the law are doomed to feelings of inadequacy and frustration.⁵⁰

Oleszek identifies seven factors that may inhibit legislative oversight. First, the apparent lack of sufficient institutional or political incentives that reward committees and members who perform over-

sight. "This is often tedious work with no guarantee that members will reap any political reward, either within their own chamber or among their outside constituents."⁵¹

Some Congressmen believe it is not only unrewarding but also possibly dangerous.

... oversight, unless it turns up a scandal or gross maladministration, is dull and politically dangerous. If effective oversight turns up an ineffective program which results in its proposed elimination, the greatest hue and cry goes up from those with a vested interest in the program, and not from taxpayers overjoyed at the prospect of reduced federal spending.⁵²

A second deterrent to effective oversight, according to Oleszek, is the press of new legislation that limits the amount of time a committee or member has available for other duties. Congressmen clearly place a higher priority on legislating than on monitoring the bureaucracy.

There is an important place for oversight in the spectrum of Congressional functions, but not as the dominant activity, and certainly not one that is preemptive of law-making interests... its 200-year history demonstrates that Congress prefers making laws to overseeing their execution.⁵³

Third, effective oversight suffers from the development of "sweetheart" relationships between committees and agencies. As one veteran committee staffer notes:

Because committees are specialized, their members become familiar with, and often experts on, particular programs and tend to develop close relationships both with organized interest groups and professional administrators in those fields. As a consequence, committee members sometimes serve as advocates or defenders of program interests.⁵⁴

This appraisal was echoed by a retired executive branch official of long experience:

For many agencies, their natural allies are the legislative committees. As noted by one

witness before the House Select Committee on Committees: "If you leave the same jurisdiction year after year, with the same bureaucrats appearing for 20 years, the same committee members for 20 years, and the same staff members, soon there isn't much to disagree about because everyone understands how they think their little piece of the world ought to be run." Support is quickly forthcoming when they need help in blunting or negating Presidential directives which they oppose or in chasing poachers from their domains... a close affinity often exists between a committee chairman and the senior career staff of the departments and agencies under his jurisdiction. The chairmen and ranking committee members probably know more about the details of an agency's program and are better acquainted with the senior career staff than most agency heads who serve for relatively brief periods.⁵⁵

A fourth inhibition is the lack of adequate coordination and cooperation among committees so that oversight findings can be shared among concerned committees. Ogul traces this to the structure of Congress.

As long as the Congress is bicameral and the committees in each house are unwilling to coordinate with their counterparts in the other house, and as long as there are numerous standing committees and subcommittees in both houses with relative freedom to go their own way in investigating problems, the conduct of oversight would be difficult to alter substantially.⁵⁶

With their broad investigative authorities, the two Government Operations Committees might be presumed to provide some overall oversight coordination, but since their establishment by the 1946 *Legislative Reorganization Act*, they have not played that role very well. Oleszek quotes a Representative as follows:

It has been my observation that one of the reasons that Government Operations has not been effective as perhaps its creators expected in conducting oversight is that it is unable to do anything. That is very dis-

couraging to an investigator, if he cannot put his findings into proper action. Many of us on authorizing committees receive massive hearings from the Government Operations Committee with respect to a program which is within the jurisdiction of our authorizing committee, which, frankly, we don't have the time to wade through, 700 or 800 pages of testimony.⁵⁷

The Government Operations Committees have problems in synthesizing and transmitting information in a useful manner for other committees and in achieving some degree of coordination and cooperation in the sharing of information among the different types of committees.⁵⁸

A fifth obstacle to effective oversight, according to Oleszek, stems from a deficiency in program design—the lack of committee consensus regarding the goals of a program or the Congressional intent when establishing an agency or program.

Public laws are often the product of conflicts and compromises, and when those compromises are translated into legislative language, it may not be possible to determine with any degree of assurance what specific measure was intended for program administration. And on controversial measures, there may not even be any clear consensus regarding the goals of a program by committee members or staff. Hence, this sometimes leads to internal committee bickering about what constitutes clear standards or indices of program success or failure.⁵⁹

When conflict and uncertainty over programs mark the drafting of legislation, a constant danger exists that when oversight hearings begin, the internal bickerings and disagreements will be rekindled.

The final two inhibitions on Oleszek's list are the inadequacy of indices for judging performance and the lack of independently oriented subcommittees with authority to take the initiative in policy and oversight areas. The former relates to the difficulty of measuring many governmental functions, particularly in social programs. As former Sen. Bill Brock commented:

We must keep in mind that it is especially difficult to gauge whether social pro-

grams are successful. These programs necessarily have multiple goals which in their ultimate form are very hard to measure.⁶⁰

To some extent Congress is hoping to cope with this problem by increased emphasis on evaluation and by the duties assigned to GAO, through the 1974 *Congressional Budget and Impoundment Control Act*, to undertake evaluation and cost-effectiveness studies.

Regarding the last obstacle, the House Select Committee on Committees in 1974 recommended that each committee be authorized to set up a special oversight subcommittee. As the reform was finally adopted by the House, however, each committee is permitted to determine whether it can best accomplish improved oversight by special subcommittees or by other means, which include authorizing each subcommittee to perform oversight in conjunction with its other duties.

Ogul ascribes much of the disappointment with Congress' performance in oversight to unrealistic expectations. He also gives reasons why committees do not conduct more oversight. Some are very similar to Oleszek's:

1. The members of some committees and subcommittees exhibit modest concern for the committee's work.
2. On some committees, members are active and interested but perform little or formal oversight because legislation captures their primary attention.
3. On some committees, the members in charge have determined that more oversight will not serve their partisan and policy purposes.
4. On relatively few subcommittees, the lack of continuing authority and adequate resources is an important limit. The full committee chairman usually can allocate the necessary resources and authority, if he wants to do so.⁶¹

THE SPECIAL CASE OF GRANTS-IN-AID

Some problems in Congressional oversight do not exist, or exist in a different form, for grants-in-aid. One is the "sweetheart" relationship between committee members, interest groups, and federal bureaucrats, which generally blunts the edge on oversight.

In grant-in-aid programs a fourth party intrudes in the triangular relationship—the state/local recipients. The federal administrator and his/her state/local counterparts generally agree on the worth of their program's goals and the need for bigger and better funding, but they often disagree on the methods of achieving the goals. That is not surprising because the federal administrator's duty, within the Congressional prescription, is to inform state/local administrators of the requirements to qualify for grant funds, and to assure the correct performance. The state/local administrator usually finds that the federal prescription, particularly in narrow-based categorical grants, is intrusive or in some way makes the job difficult. To the extent that the state/local administrator can make oversight committee members aware of this viewpoint, such as through professional associations, personal representatives in Congress, or the special interest groups supporting the program, he/she injects a disruptive element into the "sweetheart" relationship. One offshoot of that tension can be a sharpening of Congress' attention to oversight of those programs. Another can be complaints about the failure of administrators to follow Congressional intent, despite an inability or unwillingness to clarify that intent statutorily, for reasons cited earlier.

A second general oversight problem that bears on grant-in-aid programs is coordinating the activities of several Congressional committees. Coordination between chambers raises difficulties for grant programs and others, but sharing responsibility among many committees within each chamber is somewhat less difficult. Responsibility for grant programs is generally assigned to committees on a functional basis; therefore coordination can be facilitated by proper committee referrals. Recent committee reforms presumably would aid this action even more. Moreover, as indicated in data summarized in *Chapter IV*, categorical programs—the most numerous group by far—tend to be bunched in a few committees in each chamber, reflecting the concentration of grant programs in a few functional areas. In the Senate 53.4% of the categorical programs for FY 1975 were assigned to the Labor and Public Welfare Committee, because of the high incidence of health, education, and welfare programs. In the House responsibility for this functional area was shared by the Education and Labor and Interstate and Foreign Commerce Committees, which had under their jurisdictions 40.0% and 14.3%, respectively, of the total categorical grants. Thus the com-

mittee structure itself helps to minimize the problems of interprogram coordination concerning oversight. Problems of coordination among subcommittees within committees are a different matter, but the parent committee is likely to be a stronger force for coordination than would be the House or Senate leadership if differences had to be ironed out among rather than within committees.

Grant programs also are in a better coordinative position than other programs because of the Subcommittee on Intergovernmental Relations in each chamber. These two bodies have greatly helped to focus Congressional attention on general problems of grants-in-aid, including the difficulties of grant administration. Also, as noted earlier, House legislative committees are required to take specific cognizance of the findings of pertinent investigations conducted by the House Intergovernmental Relations Subcommittee.

The coordinating effect of the two subcommittees could be stronger, but they are limited in focusing oversight attention on individual grant problems because of the multitude of such grants, the modest subcommittee resources, and the many other demands on the subcommittee members. Also effectiveness in grants oversight matters is inhibited by the number of other assignments imposed that are unrelated to intergovernmental relations. This applies particularly to the House subcommittee.

The focusing of grant programs in a few committees suggests two points of particular concern in the Congressional oversight of grant programs. The first is the concentration of work in a few committees. As noted earlier the Senate Labor and Public Welfare Committee (renamed the Human Resources Committee under the recent reorganization) and the Education and Labor and the Interstate and Foreign Commerce Committees in the House have responsibility for over half the total categorical grant programs. This situation results from the proliferation of categorical grants for manpower, health, education, and welfare. The problem is somewhat relieved because the two big money programs—Medicaid and Aid for Dependent Families (AFDC)—are assigned to the Finance Committee in the Senate and AFDC is under the House Ways and Means Committee. However the sheer number and complexity of the other human resource programs represent a staggering task of surveillance for the pertinent committees.

The problem is aggravated by a second difficulty that generally distinguishes grant programs from

others in respect to oversight: measuring results and evaluating program performance in human services programs. Goals are difficult to define with any degree of precision, and in most cases evaluation techniques to be used are developed in the early stages of implementation. And these programs in the human services area most typically are conducted by states and localities with federal grant assistance.

The combination of these two factors—the concentration of program responsibility in a few Congressional committees and evaluation difficulties associated with human services activities—constitutes one of the most serious problems in effective Congressional oversight of grant-in-aid programs.

Prospects for Improved Oversight

The list of problems suggests some possible approaches to reform. Oleszek described some of the reform proposals that have been offered in recent years and some of their shortcomings:⁶²

Additional committee staff. Adding staff raises questions such as: Which committees and subcommittees need additional oversight staff? What are the guarantees that the added staff will be used for oversight? Is there a danger that the staff will become bureaucratized?

Ogul is skeptical about the value of adding staff for oversight:

Few underestimate the importance of committee chairmen for oversight. Many overestimate the importance of the staff. A standard shibboleth about the Congress correlates increasing the size of the staff with improving Congressional performance. Whatever commentators may assert, the Congressmen and the staff people interviewed felt that beyond a minimum level, more staff did not necessarily mean more or better work. The consensus seemed to be that the major limits came more from the member's priorities and hence his allocation of his time than from any shortage of staff.⁶³

Another observer, commenting on the problem of improving committee staffing generally, cautions against overstaffing:

... in determining what is an appropriate amount of staff for the committees, in my

opinion, it is necessary to guard against overstaffing. . . . My apprehensions . . . are grounded in the paramount need to hold professional staffs responsible to their respective committees. . . . To guard against the eventuality—no matter how remote—of realizing such potentialities for developing an irresponsible professional staff is why I believe committee staffs should be kept within size limits that allow committee members a reasonable opportunity to hold them accountable.⁶⁴

Require agencies to submit certain information to committees. Recent examples of this type include a measure to require federal agencies to make available to appropriate committees in both chambers copies of proposed new and revised rules, and a proposal that the budget include tax expenditure data. One difficulty with this general approach is obtaining agencies' compliance on a timely and useful basis, which in turn is related to agency staff and coordination problems.

Opposition party control of the House and Senate Government Operations Committees. Granting opposition party control to the two committees with governmentwide investigative authority would free the committees to criticize executive branch operations without the inhibitions of party loyalty. Apart from the political problems in adopting such a change, experience with these two committees when Congress and the President are of opposite parties casts doubt on this proposal. Partisanship alone seems to be a weak motivator on an ongoing basis.

Question period for federal officials. This practice would be similar to that used in the British Parliament. Although it has certain presumed values, such as increasing the level of information received by Congress and making administrative officers more familiar with their agencies' operations, it also has drawbacks. For instance what would happen if an officer refused to appear? Would the skilled debater show up better than one better informed but not as articulate? The decline in the significance of the "question hour" in the British House of Commons should not be overlooked in this context.

Joint legislative-executive council. A select group of members from each chamber would meet regularly with the President and department and agency heads. The key to the success of this plan would be the free and uninhibited exchange between both

sides—an objective difficult to achieve in light of the usual deference paid to the President.

Establish separate oversight subcommittees on each standing committee. This proposal was made by the House Select Committee in 1974 and modified in House Resolution 988, allowing each standing committee the option of requiring each legislative subcommittee to carry out oversight activities. Oleszek notes that this approach is no guarantee that additional oversight will be completed unless insurance steps are taken, such as action by the committee chairmen. Another problem under the separate subcommittee option is the form in which findings would be made available to the legislative subcommittees. Also the establishment of a separate oversight subcommittee implies that oversight is a pure category, "... a questionable notion. Oversight involves actions of a legislative, investigative, and fiscal character, and to suggest that all oversight can be done by a specific subcommittee that lacks wide-ranging authority may not be a practicable idea."⁶⁵

In a later article, Oleszek raised other questions about special oversight subcommittees:

... the question can be raised as to whether it is realistic to distinguish between drafting a measure on the one hand and implementation on the other. That is, the subcommittee which approved a program is perhaps better able to know its intent than a special unit created solely for review purposes. A related consideration involves the effect of intracommittee comity or norms on the oversight committees. Oversight subcommittee members may be hesitant to investigate vigorously programs created by their committee colleagues.⁶⁶

A Congressional advisory committee for each executive department or agency. The committee would meet regularly with agency committees under its jurisdiction, advising administrators on implementation and in return acquiring a better understanding of the agency's problems. One danger is possible meddling by the legislators. Another is the fact that the body would be advisory.

Oleszek ends his discussion of the various oversight reform proposals with the conclusion that little is known about the effectiveness of each in controlling administration or about their potential for interference with administrative performance.

Even if new reforms are adopted, he states, "the industriousness of individual members and committees will remain important in not only identifying administrative problems but in proposing and working for alternatives to resolve them."⁶⁷

Ogul concludes that the basic division of oversight authority between the two chambers and among many committees in each chamber "inhibit any sharp increase in the quantity and quality of oversight performed."⁶⁸ He sees three modest steps toward improvement in the Congressional oversight function: more effective use of GAO as support for Congressional units interested in oversight; the increasing tendency toward professionalization of staffs; and greater exploitation of casework as an opportunity to promote oversight. On this last point another observer suggests a centralized reporting network for constituent complaints and Congressional office followups.⁶⁹

If any of the structural reforms are to improve oversight, Congressmen must desire to make them work, which requires some incentives. Oleszek postulated that the lack of such incentives is the number one factor inhibiting effective oversight. Members give low priority to oversight because they see, by and large, little political payoff. As Ogul observed:

Most Congressmen act primarily to serve their constituents so as to promote the member's political survival. As long as what gets a Congressman reelected is something other than systematic oversight, and that is likely to be the case in the indefinite future, the typical Congressman will not drastically alter his priorities to pursue a lesser goal.⁷⁰

To the extent that oversight is connected more intimately with the central problem of political survival or with other values of Congressmen, the performance of oversight will improve; to the extent that that link is seen as weak, far-fetched, or elusive, the present state of oversight will persist.⁷¹

Accepting the necessity of motivation, Kaiser suggests another course of action with a better chance of success—improving the accessibility of oversight resources to legislators predisposed to use them, i.e., those who have the incentive. He suggests that certain resources, such as GAO, be more available for oversight assignments from Congressmen who are not in authority positions and that committee staff

respond to oversight requests from noncommittee legislators. Along the same line reorganizations that disperse authority and resources to a greater number of Congressmen (such as those effected by the House Democratic Caucus in the early 1970s) might have a greater impact on oversight than reorganizations that concentrate on the resources and facilities without regard to who is likely to take advantage of them.⁷²

In summary more oversight resources and requirements exist now than ever before, but oversight remains a secondary, if not tertiary, interest of most members. This situation is in marked contrast to that of nearly a century ago when President Wilson wrote of Congress: "... it has entered more and more into the details of administration until it has virtually taken into its own all the substantial powers of government."⁷³

Recent Proposals

In the 94th Congress two bills were considered that would have had profound effects on Congress' oversight capabilities—the "sunset" bill and a bill to impose the Congressional veto clause. Neither was enacted but the interest aroused in both indicated that they responded to some serious needs in the oversight area. Both have been reintroduced in the 95th Congress.

THE "SUNSET" BILL

S. 2925, the "Government Economy and Spending Reform Act of 1976," was introduced in the Senate by Sen. Edmund S. Muskie and eventually attracted 59 cosponsors. It was called the "sunset" bill because, similar to state legislation upon which it was modeled, it would mandate the routine termination of spending programs unless the House and Senate specifically renewed them following a comprehensive review.

The bill assigned budgeted programs and activities, grouped by function, to legislative committees for review. Termination dates were set for each functional category, with a few exceptions, over a five-year cycle. Any programs not reenacted before the deadlines were to be discontinued.

Central to the review provision was the zero-base requirement. Under this feature the review would be an analysis of not only each program's recommended annual funding increases, but also its basic funding levels. The objective was to challenge

traditional assumptions about government spending by requiring programs and activities to prove they deserved continued funding, rather than automatically being entitled to the same or greater amounts of money.

As an oversight tool the sunset program would force Congressional examination and evaluation of each program on a regular periodic basis.

The bill was developed in response to Congress' concerns over controlling the federal budget. These concerns centered on the number and complexity of federal programs; the dramatic expansion in spending for uncontrollable programs; and the rapid growth in the cost of programs that were permanently authorized. The Senate Government Operations Committee believed that unless an effort was made to bring these factors under control, "the Congress may not have the reserves it needs—either in the budget or the public trust—to pursue a legislative agenda that is changing with the nation."

S. 2925 was reported by the Government Operations Committee and referred simultaneously to the Committee on Rules and Administration and the Committee on Finance. The Rules and Administration Committee reported the bill without recommendations, but without prejudice to the "sunset" concept. The committee advocated action on the bill be deferred until the 95th Congress, "to give the Senate additional time to consider the multifarious aspects of the proposal, to find the answers to certain obvious questions, and to probe deeper into the bill's ultimate complications."⁷⁴ The reasons for requesting deferral of action included problems that were noted in the procedures of the bill—the absence of an estimated number of affected programs and a definition of program, a lack of experience with zero-base review, the uncertain impact on federal-state interrelationships, and insufficient attention to the concentration of budget significance in a very few accounts. The size of the anticipated increased workload was another underlying concern.

A revision of S. 2925 has been reintroduced in the 95th Session as S. 2, which responds to the major criticisms of its predecessor. S. 2 has simplified and shortened the review process and made it less rigid.

The 1976 House companion measure to S. 2925 (H.R. 11734) had 12 signers but never got beyond separate hearings by the Budget Committee and the Rules Committee. A companion measure to S. 2 was introduced in early 1977 as H.R. 1486.

CONGRESSIONAL VETO

The second special effort by the 94th Congress to strengthen oversight was H.R. 12048, the "Administrative Rule-Making Reform Act of 1976." This bill would have given Congress an automatic chance to veto rules and regulations issued by federal agencies. All proposed regulations were to be submitted to Congress for a period of 60 legislative days. If either house during that time acted on a concurrent resolution disapproving the proposed regulation, it would not go into effect unless the other chamber acted within 30 days to approve the rule. In addition either house could pass a resolution forcing a federal agency to reconsider any rule it promulgated and revise or withdraw it.

The Congressional veto was first used in 1932 when the Congress passed a bill authorizing President Herbert C. Hoover to reorganize the executive branch. Use of the veto on specific programs or procedures has become increasingly popular in recent years, with veto provisions appearing in varied bills such as the Campaign Finance Law, the War Powers Resolution, the *Trade Act* and the *Budget and Impoundment Control Act*. CRS identified 196 pieces of legislation enacted from 1932 through 1975 that carried a provision for Congressional review of executive action; 89 were passed since 1970, with 46 enacted during 1974-75.⁷⁵

H.R. 12048 was the first serious effort to apply the veto to all rules and regulations. Its backers believed it was needed to regain legislative control over a runaway federal bureaucracy, which Congress had not been able to accomplish through its other oversight techniques. Its opponents argued that H.R. 12048 would be an unconstitutional interference with executive authority, would create more work than Congress could handle, and would increase the influence of special interests on the workings of government.⁷⁶

Considered under suspension of the rules, a procedure that precludes floor amendments but requires a two-thirds majority for enactment, H.R. 12048 fell two votes short of passage in the House. It has been reintroduced as H.R. 2331 in the 95th Congress.

Summary and Conclusion

Oversight of the executive branch is an integral part of the legislative function, particularly under a constitutional separation of powers. Congress first

gave explicit statutory recognition to its oversight responsibility in the *Legislative Reorganization Act of 1946*. Since then it has demonstrated broadening concern through assignment of specific oversight responsibilities to committees and mobilization of additional resources via expansion of committee staff, creation of new support agencies, and delegation of new duties to existing agencies. Recently the need for effective oversight has been underscored by allegedly impeachable behavior of the President in conduct of the Vietnam war and events surrounding the Watergate burglary.

Despite universal recognition of the need for effective Congressional oversight and Congress' repeated avowals of interest—through public statements as well as dedication of additional resources—actual performance has been disappointing. The one measure specifically addressed to grants-in-aid—the periodic review provision of Section 601 of the *Intergovernmental Cooperation Act of 1968*—has been ignored. The reasons for poor oversight performance are many: overblown expectations, oversight's secondary importance to Congressmen relative to lawmaking and casework for constituents, the "sweetheart" pacts between legislative committees and administrative agencies, ineffective coordination among various oversight bodies in each house and between houses, and the difficulty of holding agencies accountable when legislative intent is unclear or ambiguous. Many problems trace back to institutional conditions that also inhibit the effective performance of Congress' lawmaking function, such as the centrifugal structure of power, the weakness of political parties, the pressure of outside interest groups, and the career aspirations of individual members.

Some problems are not as serious in the oversight of grant programs as they are in other programs—e.g., the "sweetheart" relationship and coordination among committees of the same chamber. On the other hand grant programs present special oversight difficulties, most notably the extraordinary number of separate programs, the heavy concentration of grant surveillance responsibility in a few committees, and the problem of evaluating human service activities, which constitute a large portion of grant programs.

In light of these inhibiting conditions, improving oversight is easily discouraged. But the price of poor performance is steep, as the Vietnam and Watergate debacles vividly demonstrate. Despite these recent examples, however, the unceasing expansion

of the federal budget, the bureaucracy, and aid programs heighten the urgency of continuing efforts at improving accountability. In response to that need, Congress continues to strive for better oversight, with its most recent efforts directed at heightening staff awareness and creating a budget control capacity and process. Additional moves now being considered are a "sunset" bill approach to program review and subjection of all administrative regulations to possible Congressional veto. Both steps clearly would have significant impact on grant-in-aid programs.

TECHNICAL NOTE: PRIOR STATE-LOCAL EXPERIENCE

Presumably prior experience in state and local government might affect Congressmen's approaches to intergovernmental issues, particularly those within the intergovernmental grant system. With that proposition in mind, ACIR staff compared the experience records of members of the second session of the 89th (1966) and 94th (1976) Congresses, using the biographical data in the respective *Congressional Directory*.

The task was complicated by the fact that in a number of cases, the members had held more than one state or local office. In almost every instance this involved members who served in the state legislature and previously or subsequently served as a mayor, city councilman, county supervisor, governor, county (prosecuting) attorney, or attorney general. In choosing the classification in these cases, the following priority was used: governor, mayor, county commissioner, city councilman, state senator, state representative, attorney general, and county attorney. For example if a member had been both a county supervisor and a state representative, his/her experience as county supervisor counted, and if the experience was as a state senator and a state representative, the member was shown as having been a state senator. The scale of priorities conformed to what was thought to be the relative sensitivity to grant questions among those jobs at the state and local levels. The results are shown in *Table III-2*.

A slight decline was registered in the number of ex-governors serving, but a notable increase (at least in the House) in the number of ex-mayors and ex-county commissioners represented. The number

Table III-2
Principal State or Local Office Previously Held by Members of Congress in 1st Sessions of 89th and 94th Congresses

State or Local Office	Senators		Representatives	
	1966	1976	1966	1976
Governor	17	16	2	—
State senator	6	9	45	64
State representative	12	13	70	78
Attorney general	3	5	3	3
Other state administrative or judicial office	8	10	17	20
Mayor	3	4	26	37
City council	2	2	16	14
County supervisor or commissioner	1	2	9	17
County, district, or prosecuting attorney	5	5	38	11
City or county judge	2	2	13	10
Other city office	1	1	9	7
Other county office	2	2	8	13
Local school board	—	—	5	3
No prior state or local office indicated	35	28	166	152
No information	3	1	5	6
TOTAL	100	100	432^a	435

^aOne vacancy each in California, New York, and North Carolina.

Source: ACIR staff tabulation from biographical sketches in 1966 and 1976 *Congressional Directory*.

with experience in the state legislatures also increased. A marked decline occurred in the number of representatives who had held county (prosecut-

ing) attorney jobs. Finally a decline occurred in the number who listed no previous governmental experience.

FOOTNOTES

¹The term "Congressmen" as used in this chapter refers to both Representatives and Senators unless otherwise indicated.

²See Advisory Commission on Intergovernmental Relations, *The Partnership for Health Act: Lessons From a Pioneering Block Grant* (A-56), Washington, DC, U.S. Government Printing Office, 1977, p. 9.

³See Advisory Commission on Intergovernmental Relations, *Safe Streets Reconsidered: The Block Grant Experience 1968-1975* (A-55), Washington, DC, U.S. Government Printing Office, 1977, p. 12.

⁴See Advisory Commission on Intergovernmental Relations, *Community Development: The Workings of a Federal-Local Block Grant* (A-57), Washington, DC, U.S. Government Printing Office, 1977; and *The Comprehensive Employment and Training Act: Early Readings From a Hybrid Block Grant* (A-58), Washington, DC, U.S. Government Printing Office, 1977. *Weekly Compilation of Presidential Documents*, Jan. 26, 1976, p. 48.

⁵See his speech to the 44th Annual Meeting of the U.S. Conference of Mayors, quoted in *The Mayor*, June 30, 1976, p. 2. 'S. 1437, 94th Cong.

⁶See Donald H. Haider, *When Governments Come to Washington*, New York, NY, The Free Press, 1974.

⁷For analysis of the role of the PIGs in the enactment of the original general revenue sharing legislation, see Samuel H. Beer, "The Adoption of General Revenue Sharing: A Case Study in Public Sector Politics," paper prepared for delivery at the 1975 Annual Meeting of the American Political Science Association, San Francisco, CA, Sept. 2-5, 1975, and Richard E. Thompson, *Revenue Sharing: A New Era in Federalism?*, Washington, DC, Revenue Sharing Advisory Service, 1973.

⁸*National Journal*, March 13, 1976, pp. 332-33.

⁹Referring to the chances for implementation of the plan of the Temporary Select Committee to Study the Senate Committee System in the 95th Congress, the *Washington Post* of Nov. 13, 1976, reported: "At least some of the chairmen slated to lose jobs are expected to fight the Stevenson plan, and Muskie predicted that some of the special constituencies served by committees slated for abolition would lobby heavily against."

¹⁰See, for example, the comments by Dr. Frank M. Ochberg, Director of the Mental Health Services Program at the National Institute of Mental Health: "In spite of assurances from state and local officials that the community center programs would not be neglected, Ochberg and others say they are skeptical about the way mental health would fare under a block grant system. 'The lessons of history are that people will sweep these problems under the rug and pay insufficient attention to them,' Ochberg said. 'Unless some kind of national influence is there, we'll move backward rather than forward in mental health,'" *National Journal*, March 13, 1976, p. 338.

¹¹S. 2, H.R. 1486, 95th Cong.

¹²David Mayhew, "Congressional Elections: The Case of the

Vanishing Marginals," *Polity*, Vol. VI, No. 3, Spring 1974, pp. 295-317, as quoted in Samuel H. Beer, *op. cit.*, p. 26.

¹³Roger H. Davidson, "Representation and Congressional Committees," *The Annals*, Vol. 411, January 1974, p. 50.

¹⁴Bureau of National Affairs, *Federal Contracts Report*, No. 617, Feb. 9, 1976, p. A-10. See also Samuel H. Beer, *op. cit.*, p. 2.

¹⁵Harrison W. Fox, Jr. and Susan Webb Hammond, "Committee Professional Staffs: Attributes, Activities and Communication Patterns," paper prepared for delivery at the 1976 Annual Meeting of the American Political Science Association, Sept. 1-5, 1976, p. 12.

¹⁶*Ibid.*, p. 19.

¹⁷*Ibid.*, p. 20.

¹⁸Rochelle Jones and Peter Woll, "The Interest Vested in Chaos," *The Nation*, April 2, 1977, pp. 403-04.

¹⁹Fox and Hammond, *op. cit.*, p. 10.

²⁰Fox and Hammond's survey of committee staffs found that 75.2% of the respondents were appointed to their jobs by the committee or subcommittee chairman and 14.0% by the ranking minority leader. *Ibid.*, p. 13.

²¹See Ralph K. Hitt, "The Internal Distribution of Influence: The Senate," *The Congress and America's Future*, David B. Truman (ed.), 2nd Ed., the American Assembly, Columbia University, Englewood Cliffs, NJ, Prentice-Hall, Inc., 1973, p. 94.

²²"I think if the caucus started throwing its weight around, members would not like that. It's just not in our tradition to have binding caucuses on policy matters . . . it takes so much staff to develop policy, the caucus couldn't do it. Policies are much too complex to be developed in town meetings." James L. Sundquist, senior fellow at the Brookings Institution, working on a study of Congressional power, quoted in *National Journal*, Dec. 14, 1974, p. 1889.

²³Stephen K. Bailey, *Congress in the Seventies*, New York, NY, St. Martin's Press, 1970, p. 3 ff.

²⁴Most of the 1974 Democratic freshmen—the group that had much to do with the caucus actions in 1974-75—were said to oppose binding Democratic House members by votes in the caucus. *National Journal*, Feb. 14, 1976, p. 195.

²⁵Allen Schick, "Evaluating Evaluation: A Congressional Perspective," *Legislative Oversight and Program Evaluation*, U.S. Congress, Senate, Committee on Government Operations, 94th Cong., 2nd Sess., May 1976, Committee Print, p. 349.

²⁶Herbert Roback, "Program Evaluation by and for the Congress," *The Bureaucrat*, Vol. 5, No. 1, April 1976, p. 26.

²⁷Jeffrey L. Pressman and Aaron B. Wildavsky, *Implementation: How Great Expectations in Washington Are Dashed in Oakland*, Berkeley, CA, University of California Press, 1973, pp. 70-71.

²⁸Roback, *op. cit.*, p. 26.

²⁹Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management* (A-53), Washington, DC, U.S. Government Printing Office, 1977, p. 78.

³⁰James L. Sundquist, *Making Federalism Work*, Washington, DC, The Brookings Institution, 1969, p. 82.

³¹Randall B. Ripley, *The Politics of Economic and Human*

- Resources Development*, Indianapolis, IN, Bobbs-Merrill Co., Inc., 1972, p. 26.
- ³⁴James L. Sundquist, "Congress and the President: Enemies or Partners?" *Setting National Priorities: The Next Ten Years*, Henry Owen and Charles L. Schultze (eds.), Washington, DC, The Brookings Institution, 1976, pp. 606-07.
- ³⁵For an explanation of the procedure used, see Technical Note at the end of this chapter.
- ³⁶P.L. 79-601, Sec. 136.
- ³⁷*Committee Reform Amendments of 1974*, U.S. Congress, House of Representatives, Select Committee on Committees, 93rd Cong., 2nd Sess., 1974, p. 62.
- ³⁸*Ibid.*, p. 62.
- ³⁹General Accounting Office, *Evaluating Federal Programs*, PAD 76-30, undated, p. 3.
- ⁴⁰Morris S. Ogul, *Congress Oversees the Bureaucracy*, Pittsburgh, PA, University of Pittsburgh Press, 1976, p. 11.
- ⁴¹In 1976, eight of the 22 standing committees had established oversight subcommittees: Agriculture, Banking, Currency and Housing, Government Operations, International Relations, Interstate and Foreign Commerce, Public Works and Transportation, Small Business, and Ways and Means.
- ⁴²Congressional Research Service, *Congressional Oversight, Methods and Techniques*, U.S. Congress, Senate, Committee on Government Operations, Subcommittee on Oversight Procedures, 94th Cong., 2nd Sess., 1976.
- ⁴³For example, in November and December 1976, GAO issued reports on improving the formula for the community development block grant, prepaid health plans in the California Medicaid program, and welfare case management in the District of Columbia. For further examples, see the *Monthly List of GAO Reports*.
- ⁴⁴Schick, *op. cit.*, p. 521.
- ⁴⁵Fox and Hammond, *op. cit.*, p. 17.
- ⁴⁶*Congressional Oversight: Methods and Procedures*, p. 1.
- ⁴⁷U.S. Congress, Senate, Committee on Government Operations, *Legislative Oversight and Program Evaluation*, A Seminar Sponsored by Congressional Research Service, Washington, DC, U.S. Government Printing Office, May 1976, p. 1.
- ⁴⁸See, for example, Select Committee on Committees, *Committee Reform Amendments of 1974*, U.S. Congress, House of Representatives, 93rd Cong., 2nd Sess., 1974, p. 63; Schick, *op. cit.*, p. 520; Walter Oleszek, "Congressional Oversight: Methods and Reform Proposals," *Committee Organization in the House*, U.S. Congress, House of Representatives, Select Committee on Committees, Panel Discussions, Vol. 2, Part 3, June 1973, pp. 722-23; "Congress May Step Up Oversight of Programs," *Congressional Quarterly Weekly Report*, March 22, 1975, p. 595 ff.; and Ralph K. Huit, "Congress the Durable Partner," *Lawmakers in a Changing World*, Elke Frank (ed.), Englewood Cliffs, NJ, Prentice-Hall, Inc., 1966, p. 20.
- ⁴⁹Ogul, *op. cit.*, p. 5.
- ⁵⁰*Ibid.*
- ⁵¹Walter J. Oleszek, "Toward a Stronger Legislative Branch," *The Bureaucrat*, Vol. 3, No. 4, January 1975, pp. 457-58.
- ⁵²Rep. John B. Anderson, quoted in *Congressional Quarterly Weekly Report*, March 22, 1975, p. 595.
- ⁵³Schick, *op. cit.*, p. 521.
- ⁵⁴Delphis C. Goldberg, "Intergovernmental Relations: From the Legislative Perspective," *The Annals*, Vol. 416, November 1974, p. 64.
- ⁵⁵Harold Seidman, *Politics, Position and Power*, New York, NY, Oxford University Press, 1975, pp. 49-50. The internal quotation is from Randall Ripley, House Select Committee on Committees, Panel Discussion, Vol. 2, Part 1, June 1973, p. 52.
- ⁵⁶Ogul, *op. cit.*, p. 196.
- ⁵⁷Oleszek, "Toward a Stronger Legislative Branch," *op. cit.*, p. 456. It may be noted that under House Rule XI 2(1)(3), every legislative committee report must include a summary of pertinent oversight findings and recommendations made by the Government Operations Committee whenever such findings and recommendations are submitted to the legislative committee in timely fashion.
- ⁵⁸Walter J. Oleszek, "Congressional Oversight: A Review of Recent Legislative Activities," *Legislative Oversight and Program Evaluation*, *op. cit.*, p. 50.
- ⁵⁹Oleszek, "Toward a Stronger Legislative Branch," *op. cit.*, pp. 456-57.
- ⁶⁰*Legislative Oversight and Program Evaluation*, *op. cit.*, p. 3.
- ⁶¹Ogul, *op. cit.*, pp. 188-89.
- ⁶²Oleszek, "Congressional Oversight: Methods and Reform Proposals," *Committee Organization in the House*, *op. cit.*, pp. 717-22.
- ⁶³Ogul, *op. cit.*, p. 185.
- ⁶⁴Kenneth Kofmehl, "Three Major Aspects of House Committee Staffing," *Committee Organization in the House*, U.S. Congress, House of Representatives, Select Committee on Committees, Panel Discussions, 93rd Cong., 1st Sess., June and July 1973, Vol. 2 of 3, Part 3 of 3, pp. 660-61. See also the Tax Foundation, Inc., *The Legislative Branch: The Next Billion Dollar Bureaucracy*, New York, NY, Tax Foundation, Inc., 1976.
- ⁶⁵Oleszek, "Congressional Oversight: Methods and Reform Proposals," *op. cit.*, p. 721.
- ⁶⁶Oleszek, "Toward a Stronger Legislative Branch," *op. cit.*, p. 460.
- ⁶⁷Oleszek, "Congressional Oversight: Methods and Reform Proposals," *op. cit.*, p. 723.
- ⁶⁸Ogul, *op. cit.*, p. 196.
- ⁶⁹Fred M. Kaiser, "Congress Oversees the Bureaucracy," *The Bureaucrat*, Vol. 5, No. 3, October 1976, p. 363.
- ⁷⁰Ogul, *op. cit.*, p. 196.
- ⁷¹*Ibid.*, p. 202.
- ⁷²Kaiser, *op. cit.*, pp. 362-63.
- ⁷³Woodrow Wilson, *Congressional Government*, New York, NY, Meridian Books, 1956, p. 49.
- ⁷⁴Committee on Rules and Administration, *Government Economy and Spending Reform Act of 1976*, U.S. Congress, Senate, Report No. 94-1263, 94th Cong., 2nd Sess., Sept. 20, 1976, p. 2.
- ⁷⁵*Congressional Quarterly Weekly Report*, July 31, 1976, p. 2029.
- ⁷⁶*Congressional Quarterly Weekly Report*, Sept. 25, 1976, p. 2637.

Chapter IV

The Major Contours of Categorical Grants in 1975

This chapter focuses on the major contours of federal categorical grant programs provided to states and localities in FY 1975. Other chapters analyze in depth several key aspects of categoricals described only briefly: matching provisions, apportionment formulas, and certain across-the-board performance requirements.

IDENTIFYING SEPARATE GRANT PROGRAMS

According to the Advisory Commission on Intergovernmental Relations (ACIR) staff count, categorical grants to state and local governments in 1975 numbered 442 and constituted about three-fourths of the total \$49.7 billion of all federal grants. The count of 442 is likely to raise questions among those familiar with the federal grant system. The 1977 *Catalog of Federal Domestic Assistance*, prepared by the Office of Management and Budget (OMB), includes over 1,000 program listings, and that number is often cited to indicate the number of programs under which grants are made to state and local governments. The *Catalog*, however, includes activities other than grants, such as direct loans, guaranteed or insured loans, insurance, contracts, and advisory services. It also includes programs that benefit and provide aid directly to individuals, institutions, or groups rather than state or local government programs. Moreover because no generally accepted rules, procedures, or guidelines exist that can be used to determine when an activity is a separate program, no agreement arises on the

number of programs simply providing aid to state and local governments. In many cases statutes authorizing grant activities clearly are providing for separate, although perhaps related, programs. On the other hand certain statutes combine activities that actually are separate programs because of their funding, operation, and administration. In addition many general statutory authorities that provide a means for conducting programs as determined by designated federal agencies exist.

The *Catalog* does not eliminate these problems of program identification. It attempts to define "program" in a form that most benefits the potential recipient. Although it includes those that are operated as distinct programs but are authorized under a general statutory provision, it also combines some separately authorized activities under single program statements. Probably the most noteworthy of these amalgamated program statements is that for the federal aid highway program. Every highway program that the U.S. Department of Transportation (DOT) is authorized to conduct, other than those for highway safety and beautification (which are treated separately), is subsumed under one program statement: Highway Research, Planning, and Construction (*Catalog* No. 20.205). This situation arises because applicants for those programs—limited to state highway departments—are thoroughly familiar with all highway programs and do not need a program breakdown.

At the other extreme the *Catalog* sometimes counts as separate grants subdivisions of a single basic program. An example is Promotion of the

Arts: Project and Production Grants, which the *Catalog* lists as 11 different grants, ranging from Architecture and Environmental Arts (*Catalog* No. 45.001) through Museums (45.012). The Promotion of Humanities program is similarly broken down into eight separate grants. OMB's view is that this additional information is useful to the potential applicant.

Because this report deals with categorical grants to state and local governments, grant programs were identified by a thorough search of the *United States Code, 1970 Edition*, as updated through Supplement IV.¹ After identifying those activities that met ACIR's definition of a grant program² and that were authorized for operation during FY 1975, supplementary documents were examined to determine if the programs were operational. From this effort 442 programs were identified under which state and local governments were potential grantees and which were in operation during FY 1975. The research did not focus on those programs that authorize aid generally to institutions of higher education, but included those directed specifically to public institutions. If the former are added to the state and local government count, the total number of programs would be about 540.³

CATEGORICAL GRANT PROFUSION

Tracing the roots of the confusion about the number of categorical grant programs is easier than determining how and why so many have been enacted.⁴ This profusion can be attributed partly to the "response syndrome" in the American federal

system: the readiness of Congress to respond to a specific domestic problem—articulated by individual Congressmen and/or special interest groups—by devising a specific intergovernmental solution, i.e., a narrow categorical grant. Members of Congress generally believe that the specific, narrow focus of the categorical grant enables them to assure that federal dollars are spent in the best possible manner.

A related reason is the "visibility syndrome": Congressional desire to advance a solution that clearly is targeted on the problem and with which the sponsoring member or members clearly can be identified by the voters, interest groups, and the media.

New programs tend to provide the ways and means of undertaking readily identifiable activities that are directed toward solutions of immediate problems. However in the context of the overall grant system, these separate enactments may conflict with the purposes of other programs, may overlap the scope of other programs, and generally may not be the best approach to yield the intended results.

Program profusion appeals to Congress for other reasons. When authorizing an aid package consisting of many separate programs, legislative committees, in effect, provide flexibility to appropriation committees. This latitude sometimes is needed for meeting service demands that could not be determined precisely at the time of authorization.

Many Congressional efforts to provide differing types of grants within the same basic functional area highlight efforts to assist a range of activities needed to facilitate the performance of the aided service. Hence one frequently identifies a formula

Table IV-1
Number and Estimated Dollar Volume of Categorical Grants, By Type, FY 1975

	Number	Percent	Estimated Outlays (Billions)	
			Amount	Percent
Formula-based grants	146	33.0%	\$25.8	69.0%
Allotted formula	(97)	(21.9)	(8.6)	(23.0)
Project grants subject to formula distribution	(35)	(7.9)	(2.8)	(7.4)
Open-end reimbursement	(14)	(3.2)	(14.4)	(38.6)
Project grants	296	67.0	11.6	31.0
TOTAL	442	100.0%	\$37.4	100.0%

Source: ACIR staff tabulations.

grant (allotments for each state determined according to statutory direction) that was authorized concurrently with project grants in the same program area. The latter may take the form of additional grants with separately authorized funding or may be provided for through the earmarking of a portion of the formula grant authorization for these project grants, usually as discretionary grants. These discretionary grants frequently cover activities such as training, planning, and related capacity-building efforts.

The flexibility engendered by many categorical programs applies to recipients as well as to Congress. All programs cannot meet the needs of all state and local governments, but under the existing structure, many programs can be designed to be beneficial to a large number of governments. The broad range of programs may permit eligible governments to design and implement a grant strategy by selecting those programs particularly suited to their needs.

QUANTIFYING THE TYPES OF CATEGORICAL GRANTS

Categorical grants are differentiated from block grants and general revenue sharing (GRS) on the basis of the narrower scope of activities to which they are directed and the numerous conditions attached to recipient performance. Four types of categorical grants exist: formula, project, formula-project, and open-end reimbursement. The number and estimated dollar volume of each type for FY 1975 are shown in *Table IV-1*.

Formula-Based Grant Programs

Formula-based grants basically are made available automatically to eligible recipients who meet the requirements and conditions established by statute or regulation; the grant is considered to be an entitlement. One frequent requirement is the preparation of a state plan that must be approved by the responsible federal agency official. The applicable statute or regulation issued pursuant to the legislation details provisions that are to be included in the state plan. Following approval of the required plan, grant funds become available for the proposed activities. In general formula grant recipients exercise some discretion in the selection of activities to be funded from those that are allowable under the plan. Sometimes amounts determined

under formula allotments are paid to eligible recipients only in response to specific, detailed applications for the allotments.

A program may be considered a formula program even if only a portion of its funds are allotted among eligible jurisdictions. The remaining funds may be distributed at the discretion of the administrator to supplement formula allotments or to make project grants to those groups ineligible for a formula grant. These discretionary grants usually are considered as completely separate from the formula program in this study.

For the 35 formula-project grants (those using a formula to determine the state area amount), limitations are placed on the amount available for funding project applications from potential grantees in the state. For the grant programs that combine project grants under a formula allotment grant, the formula is used to determine the amount for any state, and part of the allotment is used to make grants on the basis of individual applications from potential recipients, while the remainder is available on a regular entitlement basis.

In the following analysis the 14 open-end reimbursement grants identified in this study also are regarded as formula-based. For these grants the federal government matches all approved expenditures without limit as to absolute amount; therefore no allocation formula is involved. However their automatic entitlement feature makes them more akin to formula-based than to project grants, and they are conventionally regarded as such. For purposes of this study 13 of these type are counted as allocated formula grants and one as a formula-project grant.⁵

FUNCTIONAL DISTRIBUTION

Table IV-2 summarizes the formula-based grant programs by type of grant (allotted formula or formula-project), by derivation of formula (by legislation or regulation), and by the budget subfunctions that include grant programs. More than one-third of the total are classified in two subfunctions—ground transportation and elementary, secondary, and vocational education. For allotted formula grants alone, these two categories account for 42 of the total of 110 such grants. Other numerous allotted formula programs are public assistance and other income supplements (11), social services (10), training and employment (8), and research and general education aids (7).

Table IV-2
Formula-Based Categorical Grants, by Type, Derivation of Formula, and Budget Subfunction, FY 1975

Budget Subfunction Classification (1977)	Total			Allocation Formula in Legislation			Allocation Formula in Regulations		
	Total	Allotted Formula	Formula- Project	Total	Allotted Formula	Formula- Project	Total	Allotted Formula	Formula- Project
051—Department of Defense—Military	2	1	1	1	—	1	1	1	—
301—Water Resources and Power	2	1	1	1	—	1	1	1	—
302—Conservation and Land Management	4	3	1	—	—	—	4	3	1
303—Recreational Resources	6	3 ^a	3	3	3 ^a	—	3	—	3
304—Pollution Control and Abatement	3	—	3	1	—	1	2	—	2
306—Other Natural Resources	1	—	1	1	—	1	—	—	—
352—Agricultural Research and Services	5	4 ^b	1	3	3 ^b	—	2	1	1
404—Ground Transportation	22	18 ^c	4	17	17 ^c	—	5	1 ^g	4
405—Air Transportation	2	—	2	2	—	2	—	—	—
406—Water Transportation	3	3 [*]	—	3	3 [*]	—	—	—	—
407—Other Transportation	1	1	—	1	1	—	—	—	—
451—Community Development	2	—	2	1	—	1	1	—	1
452—Area and Regional Development	3	—	3	1	—	1	2	—	2
501—Elementary, Secondary, and Vocational Education	30	24	6	30	24	6	—	—	—
502—Higher Education	4	4	—	3	3	—	1	1	—
503—Research and General Education Aids	7	7	—	7	7	—	—	—	—
504—Training and Employment	11	8 [*]	3 [*]	8	7 [*]	1	3	1	2 [*]
505—Other Labor Services	1	—	1	—	—	—	1	—	1
506—Social Services	11	10 ^{d*}	1	8	8 ^{d*}	—	3	2	1
551—Health Care Services	4	4 ^{e*}	—	2	2 [*]	—	2 ^f	2 ^{ef}	—

(Continued)

Table IV-2
Formula-Based Categorical Grants, by Type, Derivation of Formula, and Budget Subfunction, FY 1975

Budget Subfunction Classification (1977)	Total		Allocation Formula in Legislation		Allocation Formula in Regulations			
	Allotted Formula	Formula- Project	Total	Allotted Formula	Formula Project	Total	Allotted Formula	Formula- Project
553—Prevention and Control of Health Problems	1	—	—	—	—	1	1	—
554—Health Planning and Construction	2	1	—	—	—	2	1	1
604—Public Assistance and Other Income Supplements	11	11**	9	9**	—	2	2	—
703—Hospital and Medical Care for Veterans	4	3***	3	3***	—	1	—	1
754—Law Enforcement Assistance	3	3	2	2	—	1	1	—
806—Other General Government	1	—	—	—	—	1	—	1
TOTAL	146	110	107	92	15	39	18	21

^aIncludes three grants providing for detailed statement for each project or state plan option.

^bIncludes two programs that provide that funds may be expended for previously approved projects only.

^cIncludes ten programs that provide that funds may be expended for previously approved projects only.

^dFor one of the programs it may be required that a portion of the allotment be expended on projects that have first been approved by the Secretary.

^eIncludes one program where one-half is allotted by formula factors and one-half of the amount available is distributed as determined by the Secretary.

^fIncludes one program where legislation provides for use of a factor that is not used due to lack of data.

^gPreviously approved projects only.

**Includes one open-end reimbursement program.

***Includes six open-end reimbursement programs.

****Includes three open-end reimbursement programs.

Source: ACIR staff tabulations.

Table IV-3

Formula-Based Categorical Grants, by Type, Existence of Nonfederal Matching, Type of Eligible Recipient, and Budget Subfunction, FY 1975

Key: Grant type: F —Allotted formula

F/P—Formula-project

Eligible recipient: 1—State governments

2—State and local governments

3—Local governments

4—Governmental and others (e.g., private nonprofit organizations)

Budget Subfunction	Grant Type	Total Number	Require Nonfederal Matching	Eligible Recipient			
				1	2	3	4
051—Department of Defense—Military	F	1	1	1	—	—	—
	F/P	1	1	—	1	—	—
301—Water Resources and Power	F	1	1	1	—	—	—
	F/P	1	—	1	—	—	—
302—Conservation and Land Management	F	3	3	3	—	—	—
	F/P	1	1	1	—	—	—
303—Recreational Resources	F	3	3	3	—	—	—
	F/P	3	3	3	—	—	—
304—Pollution Control and Abatement	F/P	3	3	1	2 ^a	—	—
306—Other Natural Resources	F/P	1	1	1	—	—	—
352—Agricultural Research and Services	F	4	3	4	—	—	—
	F/P	1	1	1	—	—	—
404—Ground Transportation	F	18	16	16	1	1	—
	F/P	4	3	4	—	—	—
405—Air Transportation	F/P	2	2	—	2	—	—
406—Water Transportation	F	3	2	3	—	—	—
407—Other Transportation	F	1	1	1	—	—	—
451—Community Development	F/P	2	2	—	—	—	2
452—Area and Regional Development	F/P	3	2	1	1	—	1 ^a
501—Elementary, Secondary, and Vocational Education	F	24	6	13	3 ^b	8 ^c	—
	F/P	6	2	—	1	2	3

(Continued)

Table IV-3

Formula-Based Categorical Grants, by Type, Existence of Nonfederal Matching, Type of Eligible Recipient, and Budget Subfunction, FY 1975

Budget Subfunction	Grant Type	Total Number	Require Nonfederal Matching	Eligible Recipient			
				1	2	3	4
502—Higher Education	F	4	2	4	—	—	—
503—Research and General Education Aids	F	7	5	7	—	—	—
504—Training and Employment	F	8	2*	5*	3	—	—
	F/P	3	1*	1*	—	—	2
505—Other Labor Services	F/P	1	—	1	—	—	—
506—Social Services	F	10	9*	9*	—	—	1
	F/P	1	—	1	—	—	—
551—Health Care Services	F	4	3*	4*	—	—	—
553—Prevention and Control of Health Problems	F	1	—	1	—	—	—
554—Health Planning and Construction	F	1	1	1	—	—	—
604—Public Assistance and Other Income Supplements	F/P	1	1	—	—	—	1
	F	11	5**	8**	—	—	3 ^b
703—Hospital and Medical Care for Veterans	F	3	3	3	—	—	—
754—Law Enforcement Assistance	F/P	1	1	1	—	—	—
	F	3	3	2	1	—	—
806—Other General Government	F/P	1	1	—	1	—	—
	F	110	69	89	8	9	4
Subtotal	F/P	36	25	17	8	2	9
		146	94	106	16	11	13

^aOne local grant received through state or by state approval.

^bTwo local grants received through state or by state approval.

^cSeven local grants received through state or by state approval.

*Includes one open-end reimbursement program.

**Includes four open-end reimbursement programs.

Source: ACIR staff tabulations.

TYPES OF RECIPIENTS; NONFEDERAL MATCHING

From the vantage point of the recipient, state governments are the group most heavily involved in formula-based programs. *Table IV-3* illustrates how these programs are distributed on the basis of eligible recipients and again by budget subfunction.

For more than two-thirds of the programs, the state governments are the exclusive recipients. This preponderance of state recipients is even greater when the allotted formula grants are separated out. Eighty-nine of 110, or over 80%, of these grants went exclusively to the states. This pattern is not surprising because the federal grants-in-aid system was originally a federal-state relationship and funds were allocated on a formula basis. Grant funds primarily pass through the states because localities are subgovernments of the state, and federal funds are viewed as supplanting the state programs aiding local programs. This position was a strong element of the New Federalism ideology of the Nixon-Ford Administrations. However when an interest in channeling more funds directly to local jurisdictions arises, the paucity of comparable local-level data and difficulties in devising equitable substate formulas have generally led to the use of project grants for that purpose. In this study only two formula categorical grants were identified that allotted money directly to local units: Urban Mass Transportation Basic Grants and Indian Education Grants to local Education Agencies.

Table IV-3 also shows the extent to which formula-based grant programs require recipients to share in program costs. Ninety-four, or about two-thirds, require nonfederal matching. Among the allotted formula grants, those least inclined to require matching are: elementary, secondary, and vocational education (18 of 24 with no matching), higher education (2 of 4), training and employment (6 of 8), and public assistance and other income supplements (6 of 11). A general discussion of matching issues applied to all categoricals is conducted later in this chapter.

PURPOSES OF FORMULA-BASED GRANTS

What purposes does Congress have in mind in choosing the formula-based form of grant? For categorical grants as a whole, analysts generally have identified two basic purposes: stimulation and support. Congress aims either to stimulate recip-

ients to undertake a new or expanded activity that falls within the scope of their traditional functions, or to support activities that recipients are performing already. A 1969 classification of grants for the Senate Subcommittee on Intergovernmental Relations (prepared by the Legislative Reference Service (LRS) of the Library of Congress) followed this basic dichotomy, interpreting Congressional intent from reading or inferences from the law and legislative history.⁶

In attempting to classify grants funded in FY 1975, ACIR staff employed a modification of the basic stimulation-support differentiation and, in interpreting Congressional intent, relied on statutory prescription of purpose and consideration of other factors, such as matching ratios and the age of the grants. As the resulting classification of the 146 formula-based grants in *Table IV-4* shows, this process produced a classification that reflects varying combinations of the two basic purposes as well as combinations of the subsets of the purposes.

Technical Note 2 in the *Appendix* explains in detail the methodology, rationale, and terms used. However the parentheses following "stimulative" indicates that the grant appears to be stimulative only in regard to the activity in the parentheses. Thus stimulative (research) means that stimulation of research is the apparent intent of the grant. Complementary grants are those whose purpose and other characteristics cannot be considered apart from other grants. Examples are discretionary grants used to supplement block grants and supplements to Appalachian Regional Development aids. National program grants go to states and localities to compensate administration and supervision of essentially national programs in which states and localities have little policy discretion. These include, for example, food stamps, manpower programs, disaster assistance, small business assistance, and flood protection.

As *Table IV-4* shows the largest single group of apportioned formula grants is for national programs. The first two groups in the list, when combined, however, constitute the largest (37.3%). These programs represent those now providing support, although initially some were established for purposes of stimulation. In addition grants that seem intended to provide support and stimulation simultaneously amount to another 19.1%. Therefore all apportioned formula grants that now appear to provide support totally or substantially constitute well over one-half the total (56.4%). These

and the national program grants account for over 80% of all the allotted formula grants. Clearly allotted formula grants with stimulation and state-local recipient capacity-building purposes as goals represent a small part of this grant total.

Among formula-project grants, stimulation is more significant and support less significant than in the case of allotted formula grants. This situation doubtless reflects the influence of the project component that Congress views as a better tool for targeting stimulative efforts than the allotted formula instrument. Again, however, what is identified as national programs make up over one-half of these grants.

One other point bears noting: the share of both types of grants in which Congress appears to have

dual purposes. The analysis found that about one out of five of both forms of grant were of this kind.

FORMULAS DETERMINED BY CONGRESSIONAL DIRECTION AND SUGGESTION AND BY AGENCY INITIATIVE

As detailed in *Table IV-2*, for 107, or roughly three-quarters, of the 146 formula-based grants, Congress clearly and specifically stated the allocational factors to be used and the precise weighting of the factors in the grant legislation. For some of the remaining 39 programs, Congress legislatively determined some factors to be included but did not restrict the formula to those factors or indicate the weights of each.⁷ Moreover to simplify the man-

Table IV-4
Number of Formula-Based Categorical Grants, By Grant Type and Apparent Congressional Purpose, FY 1975

Apparent Congressional Purpose	Allotted Formula		Formula/Project		Total	
	Number	Percent	Number	Percent	Number	Percent
Support	22**	20.0%	3*	8.3%	25	17.1%
Started as stimulative, now support	18	16.4	5	13.9	23	15.8
Part stimulative (operations)/part support	20*	18.2	7	19.4	27	18.5
Stimulative (operations)	6	5.5	6	16.7	12	8.2
Stimulative (research)	2	1.8	—	—	2	1.4
Stimulative (demonstration)	2	1.8	1	2.8	3	2.1
Stimulative (facilities construction)	1	0.9	1	2.8	2	1.4
Part stimulative (research)/part support	—	—	1	2.8	1	0.7
Part stimulative (demonstration)/part support	1	0.9	—	—	1	0.7
Part stimulative (operations)/part stimulative (demonstration)	1	0.9	—	—	1	0.7
Capacity building	7	6.4	1	2.8	8	5.5
Part capacity building/part training	2*	1.8	—	—	2	1.4
Complementary grant	—	—	1	2.8	1	0.7
National program	28***	25.4	10	27.8	38	26.0
TOTAL	110	100.0%	36	100.1%	146	100.2%

*Includes one open-end reimbursement grant.

**Includes three open-end reimbursement grants.

***Includes eight open-end reimbursement grants.

Source: ACIR staff tabulations.

agement task, some of these 39 programs use administratively developed allocation formulas to determine the amount of aid available to each state, even though their authorizing statutes do not include such directions to the agencies.

In designing some ostensibly discretionary grant programs, Congress has included legislative language that may be characterized as a distribution performance measure for the Secretary of the administering department. The *Housing and Community Development Act of 1974*, for example, states: "In allocating financial assistance under the provisions of law specified in subsection (a) of this section, the Secretary, so far as practicable, shall consider the relative needs of different areas and communities as reflected in data as to population, poverty, housing overcrowding, housing vacancies, amount of substandard housing, or other objectively measurable conditions. . . ."⁸ The cited subsection (a) covers programs dealing with housing for low-income persons. Additionally some statutes include provisions that aid should be distributed equitably on a geographic basis and within both urban and rural areas; an administratively determined formula might be used to meet such requirements. Moreover some grants classified as allotted formula grants—most notably those for highways and urban mass transportation—require that allotments be used only for previously approved projects. In a few other cases detailed project statements may be required in lieu of a state plan, or part of the allotment may be subject to individual project requirements.

Some formula allocations are completely administratively determined—both the use of such formulas and the factors developed to distribute available funds.⁹ Although specific formulas for many of these programs are not found in regulations (or agency guidelines), some form of administrative allocation may be used. Commenting on social grants and the 1974 budget decisions in a Brookings Institution study, the authors noted: "Even though project grants are not distributed by legislative formula, federal agencies tend to use their own administratively determined formulas to set aside funds for each state or region in the country."¹⁰

Formulas developed by the federal departments or agencies administering grant programs sometimes remain unaltered over time, even though the responsible federal officials have the option of discarding the formulas or changing the distribution factors. Illustrative of this administrative discretion

is a U.S. Department of the Interior explanation of the formula used to determine distributions for the historic preservation grant program. The Department noted that the annual appropriation will be allocated by the Secretary of the Interior, whose determination is to be final, but that the Secretary in developing this formula for FY 1975, FY 1976 and for the transition quarter (the three-month period from July 1, 1976 through September 30, 1976) is not committed to using the formula in the future.¹¹

Although allotted formula grant programs have been enacted at various times since the late 19th Century, almost all of the formulas currently in use are of recent vintage. If the formula for an allotted grant program were dated as of the most recent change in any part of the formula (e.g., a factor, a basic minimum, an amount for each state, revised definitions of persons to be counted), only a few formulas would go back to the pre-1960 period, and nearly two-thirds would be traceable to Congressional action in the 1970s.

COMMONLY USED ALLOCATION FACTORS

Specific formulas vary from one program to another because of the varying types of activities covered. Yet definite patterns emerge when considering formula grants as a group. Some programs' formulas include the distribution of an equal amount of assistance for each eligible recipient in addition to any amounts allocated by factors that are designed to indicate program need. Thus of the formula-based grants identified, two use allocation formulas that are based solely on equal distributions to all eligible recipients, while 32 other programs include an equal amount plus an amount determined on the basis of other factors.

For one out of every three programs using a formula to determine the level of grants, the formula provides for an adjustment of the amounts derived for each state to guarantee a stated basic minimum entitlement. At the other end of the spectrum are programs that include a cap or maximum amount to be made available for grants in any eligible jurisdictions.

Congress has limited allotment formulas in other ways. Over the past several years, it has included provisions in some grant programs (notably in the highway and welfare fields) that require allotments to be reduced if the grantee does not meet standards and conditions under other related but sep-

arate programs. For instance amounts allocated to a state for specified major highway programs are to be reduced by amounts equal to 10% of what otherwise would be allotted if the state has not made provisions for the effective control of outdoor junkyards.¹² Additionally highway program allotments may be reduced by 10% of the amount otherwise allotted, if the state is not implementing an approved highway safety program.¹³

The formula factors are fully tabulated in Appendix *Table IV-A1*. A summary of the factors by type and budget function is presented in *Table IV-5*.

Population

The most commonly used formula factor clearly is population, either the total or that for some segment of the population. In 1975 funds for 83 of the 146 programs identified in Appendix *Table IV-A1* were distributed by formulas that included a population factor.¹⁴ Among these were 60% of the 110 allotted formula grants.

The total population of the United States was used for 28 distributions. For three of these total population was the only factor used to distribute funds, but the imposition of a basic minimum for one and the inclusion of both a basic minimum and a maximum in another could modify the distribution. Another three of the 28 programs not only used total population as a factor, but also included a segment of the population as another factor in the formula. The remaining 55 of the 80 formulas employing population used only segments of the population as distribution factors, such as urban population, rural population, and children aged five to 17.

Financial Need

For 32 formula grant programs, the allocation was based, at least partially, on a factor representing financial need—generally per capita income. In some of these cases the legislation indicates that “need” should be considered in distributing available funds but does not define the term.

In some of the 32 cases an income factor was included in the formula to provide a degree of equalization of available fiscal resources among the states. This factor is based on the concept that income is a proxy measurement of a governmental unit’s ability to raise revenues to pay for activities financed

by a grant as well as for other governmental services. Where a distributional factor is a state’s per capita income in relation to the national average per capita income, equalization is probably the reason for its inclusion. Use of the factor tends to equalize the tax burden directly arising from matching and other cost-sharing requirements. This factor also impacts indirectly on the financing of other activities, because those nonfederal funds that would have been spent on the aided activity in the absence of a federal grant program become available for other governmental activities. Thus equalization provisions help bring about a certain measure of income redistribution.

Although the personal income of residents of a state typically is used as the proxy indicator of fiscal capacity in a distribution formula, it is only a partial indicator of a state’s fiscal capacity. It fails to reflect closely the potential of certain other revenue resources, such as severance taxes in states like Louisiana, New Mexico, Texas, and Wyoming; motor fuel taxes in tourist-oriented states like Maine and Vermont; or gambling taxes in Nevada.¹⁵

Table IV-6 lists 20 formula-based grant programs that use a per capita income measure in determining the allocation of available funds, therefore providing for some degree of equalization of resources. Equalization, however, also can be provided by designing matching rates wherein the recipient’s matching percentage varies among states based on the per capita income in the state in relation to the national average.¹⁶ Such programs, of course, are not included in this count. Where both the allotment formula and matching requirements are used to reflect variations in fiscal capacity, areas least able to support their own activities are allocated proportionately more funds than other jurisdictions, and because the matching rate is adjusted, the “price” of such assistance is less than that for areas with greater access to financial resources. For programs without any matching requirements, attempts to equalize resources clearly must be resolved by the allocation formula alone.

The 32 categorical formula grant programs using a financial need factor do not include programs where an income factor is only indirectly related to the allotment. The latter include grants for which assistance is dependent on program level or the number of participants, and where eligibility for participation in the program may be related to income. For example income clearly is an allocational factor in a formula where assistance is determined (partly

Table IV-5

Formula Factors Used in Allocations, By Type and Budget Function, FY 1975

Formula Factor	Budget Function											Total
	Military	Natural Resources, Environment, and Energy	Agriculture	Commerce and Transportation ^a	Community and Regional Development	Education, Employment, Training, and Social Services ^b	Health	Income Security	Veterans Benefits and Services	Law Enforcement and Justice	Other General Government	
Same amount allotted to each recipient	1	—	3	2	1	17	2	—	—	1	—	27
Population:												
Total	1	5	—	6	—	10	3	—	—	2	1	28
School-age children (all or part)	—	2	—	—	—	10	—	—	—	—	—	12
Other groups	2	—	3	10	3	20	1	2	—	1	—	42
Per capita income	—	2	—	—	—	11	6	1	—	—	—	20
Other income related factor	—	—	—	—	3	7	—	2	—	—	—	12
Students (various types)	—	—	—	—	—	9	—	1	—	—	—	10
Expenditure level	1	4	1	3	—	13	2	3	—	—	—	27
Program level	—	1	1	1	—	2	—	7	3	—	—	15
Other	—	10	1	17	3	18	1	6	4	—	1	61
Number of allocations	2	16	5	24 ^a	5	62 ^b	7	11	4	3	1	140

^aFor four programs, the allocation is a fixed percentage of another program's allocation. These four are not included in the count.

^bFour programs are under two allocations.

Source: ACIR staff tabulations

or totally) based on the number of children living in families with an income below \$3,000 per annum. In the case of the school breakfast program, however, the amount of assistance is the sum of the products of the applicable average payment for each breakfast served multiplied by (1) the number of breakfasts served, (2) the number served free to eligible children, and (3) the number served at a reduced price to eligible children. Family income is used to determine the eligibility of a child to receive a free or reduced price breakfast, but it is not used as a direct allocation factor.

Program Need

Besides fiscal equalization, an income factor sometimes is used to indicate program need, especially when income directly pertains to the group benefiting from the aid. Generally when the income factor is used in a formula to help describe a segment of the population (e.g., number living in poverty, number of children aged three to 17 in families with incomes below a certain level), it should be considered as an indicator of program need rather than as a device for fiscal equalization.

Formula factors other than population or income sometimes are considered as indicators of program need. For some programs pinpointing is possible for those statistical indicators that are related directly to the volume and distribution of the service needed. The distribution formula for the state boating safety program, for instance, provides that one-third of the funds are allocated among the states according to the number of vessels registered in each state. For this formula approach to be effective, clear understanding is required concerning the program objectives and a selection of data most relevant to these objectives.

Where total population is one of the factors in an allocation formula, the originators of the formula may perceive that program need, at least partially, is spread uniformly among the states directly in relation to each state's residential population. Moreover if total population is the only factor used, program need may be thought of as entirely a function of the location of people. In some cases population was not the most applicable indicator of program need, but it was used because no more relevant data source was available. Analysis of the formula-based categoricals suggests that the Developmental Disabilities; Vocational Rehabilitation Services; Alcohol Abuse and Alcoholism Prevention, Treatment,

and Rehabilitation; and Drug Abuse Prevention and Treatment basic grants programs fall into this group.

The use of population data for a segment of the population—such as the number of children ages five to 17 or persons over age 20—rather than total population tends to reflect program need more directly in relation to the constituents to be served. For example program funds dealing with the aged are distributed by a formula that takes into account the location of persons over 55 or 60 years old.

Many formula grant programs do incorporate distribution factors that are intended to indicate greatly servicing needs. Appendix *Table IV-A1* illustrates the extent of specificity in formula factors, and the data are shown under seven column headings (excluding "other") that represent about 15 of the most frequently used formula factors. However although the table makes it possible to identify many common factors, the column headed "other," which covers those factors not included elsewhere, has over 70 entries.

Project Grants: The Nonformula Approach

This chapter has dealt with formula grants, including project grants that are subject to formula distributions to determine state-area amounts. This section examines some basic features of the main body of project grants—nonformula grants for which potential recipients submit specific, individual applications in the form and at the times indicated by the grantor agency and which are not subject to state-area formula distributions.

In the course of this study, 296 of the total of 442 grant programs funded in FY 1975 were identified as project grants to state and local governments and other governmental agencies. Project grants thus constitute over two-thirds of the total number of categorical grants. However they account for only about one-third of all federal grant dollars.

Project grants, as a group, have extended the types of activities for which state and local governments receive financial aid from the federal government. Early grants were mainly formula grants for a limited range of activities, such as highways, agricultural enhancement, and agricultural extension work. Even during the 1930s when many additional federal aid programs were enacted, aid generally took the form of formula grants. Project grants are largely a recent phenomenon, gaining importance as

a grant mechanism in the 1960s and continuing to do so in the 1970s.

The reasons for the sudden popularity of project grants in the 1960s were many and complex—a heightened concern over critical urban needs; the widespread view that state governments were constitutionally and philosophically unwilling or incapable of dealing with these needs; the difficulty of using the traditional state plan approach under formula grants to target on social problems at the community level; the absence of reliable substate allocation data; a growing interest in employing nongovernmental as well as governmental agencies as grant recipients; and the desire to simulate innovative approaches to the solution of particular problems.

Project grants are the narrowest focused of all federal aid programs. Graphically aid programs would appear as in *Figure IV-1* when classified according to the breadth of program content.¹⁷ Although the activities conducted under other grant types may be more specific and focused on a narrow objective, the program design and operation would be determined largely by the recipient.

THE SHAPE OF THE NONFORMULA PROJECT PROGRAMS

Because the nonformula project grants cover a very broad range of activities, generalization concerning them is not easy. However a few character-

Table IV-6

Formula-Based Categorical Grant Programs That Use Per Capita Income As An Allocation Factor, By Budget Subfunction, FY 1975

Budget Subfunction Number and Program	Allotted Formula Grant	Formula- Project Grant	Allocation Included in Legislation
301—Water and Related Land Resources Planning: Basic Grants to States for Comprehensive Planning	X		
304—Air Pollution Prevention and Control: Planning and Program Operation		X	
501—Educationally Deprived Children: Special Incentive Grants	X		X
501—Vocational Education: Consumer and Homemaking Education	X		X
Research and Training in Vocational Education: Basic Grants	X		X
Discretionary Grants		X	X
Special Programs for the Disadvantaged	X		X
State Advisory Councils	X		X
State Vocational Education Programs	X		X
503—Strengthening Instruction in Science, Mathematics, Languages, and Other Critical Subjects: Equipment and Minor Remodeling ^a	X		X

(Continued)

istics exist that apply to a large number of these grants. *Table IV-7* highlights three major traits: the way the grants are distributed by function and by eligible recipient, and the incidence of nonfederal matching requirements.

Nearly one-half of the project grants in FY 1975 were for health-related (64), education (59), or social services (25) activities. Other well represented functional areas were area and regional development (24), ground transportation (15), and public assistance and other income supplements (11). Collectively these activities embraced nearly two-thirds of the total number in 1975.

For 57 grants state governments were the exclusive recipients; for 9, local governments were the

sole recipients; and for 45, both states and localities were eligible. For the remaining 185 other entities, such as private nonprofit agencies, were recipients along with either or both state or local governments.

Compared to the recipient breakdown for formula-based grants, exclusive eligibility for state governments was much less prevalent among the project grants. However relatively few project grants were directed solely to local governments, and most of these (7 of 9) went to local school districts. This small number directed exclusively at general purpose local governments reflects, in part, the recent consolidation of urban programs under the community development block grant, but more importantly it reflects local sharing of eligibility with state gov-

Table IV-6
**Formula-Based Categorical Grant Programs That Use Per Capita Income
As An Allocation Factor, By Budget Subfunction, FY 1975**

Budget Subfunction Number and Program	Allotted Formula Grant	Formula- Project Grant	Allocation Included in Legislation
506—Child Welfare Services: Basic Grants to States	X		X
506—Developmental Disabilities: Basic Grants	X		
506—Vocational Rehabilitation Services: Basic Grants to States	X		X
551—Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation: Basic Grants	X		
551—Drug Abuse Prevention and Treatment: Basic Grants	X		
551—Crippled Children's Services: Basic Grants	X		b
551—Maternal and Child Health Services: Basic Grants	X		c
551—Medical Assistance (Medicaid)	X		X
554—Community Mental Health Centers: Construction		X	
604—Aid to Families with Depend- ent Children: Grants for Payments to Aid Recipients*	X		X

^aProgram was operational in fiscal year 1975 but no appropriations are authorized when funds are available under the consolidated program authorized in 1974.

^bAlthough a formula is included in legislation, a substitute is used for one factor due to lack of data.

^cOne-half of the amount available is distributed as provided in legislation; remaining distribution is determined by the Secretary.

*Open-end reimbursement program.

Source: ACIR staff tabulations.

Table IV-7
**Project (Nonformula) Grants, By Existence of Nonfederal Matching, Type of Eligible
 Recipient, and Budget Subfunction, FY 1975**

Key to eligible recipient:

- 1—State governments
- 2—State and local governments
- 3—Local governments
- 4—Governmental and others (e.g., private nonprofit organizations)

Budget Subfunction	Total Number	Require Nonfederal Match	Eligible Recipient			
			1	2	3	4
051—Department of Defense-Military	3	3	1	2	—	—
251—General Science and Basic Research	1	1	—	—	—	1
301—Water Resources and Power	5	4	1	3 ^a	—	1
302—Conservation and Land Management	8	8	5	1	—	2
303—Recreational Resources	2	2	—	2	—	—
304—Pollution Control and Abatement	20	19	4	3	—	13
306—Other Natural Resources	4	3	1	—	—	3 ^b
352—Agricultural Research and Services	3	1	2	—	—	1
401—Mortgage Credit and Thrift Insurance	2	1	—	—	—	2
403—Other Advancement and Regulation of Commerce	4	3	—	1	—	3
404—Ground Transportation	15	12	10	4	—	1
405—Air Transportation	1	1	—	1	—	—
406—Water Transportation	1	1	—	—	—	1
451—Community Development	13	9	—	3	1	9
452—Area and Regional Development	24	21	2	7 ^c	1 ^b	14 ^d
453—Disaster Relief and Insurance	9	2	4	4 ^c	—	1 ^b
501—Elementary, Secondary, and Vocational Education	48	12	5	1	7 ^e	35
502—Higher Education	5	1	1	—	—	4

(Continued)

Table IV-7

Project (Nonformula) Grants, By Existence of Nonfederal Matching, Type of Eligible Recipient, and Budget Subfunction, FY 1975

Key to eligible recipient:

- 1—State governments
- 2—State and local governments
- 3—Local governments
- 4—Governmental and others (e.g., private nonprofit organizations)

Budget Subfunction	Total Number	Require Nonfederal Match	Eligible Recipient			
			1	2	3	4
503—Research and General Education Aids	6	2	—	—	—	6
504—Training and Employment	8	5	3	1	—	4
506—Social Services	25	18	2	1	—	22
551—Health Care Services	24	14	1	—	—	23
552—Health Research and Education	22	12	2	—	—	20
553—Prevention and Control of Health Problems	18	13	5	6	—	7
604—Public Assistance and Other Income Supplements	11	3	3	4	—	4 ^b
703—Hospital and Medical Care for Veterans	2	2	2	—	—	—
754—Law Enforcement Assistance	10	5	2	1	—	7
804—General Property and Records Management	1	1	—	—	—	1
806—Other General Government	1	1	—	1	—	—
TOTAL	296	180	56	46	9	185

^aOne local grant received through state or by state approval.

^bOne grant received through state or by state approval.

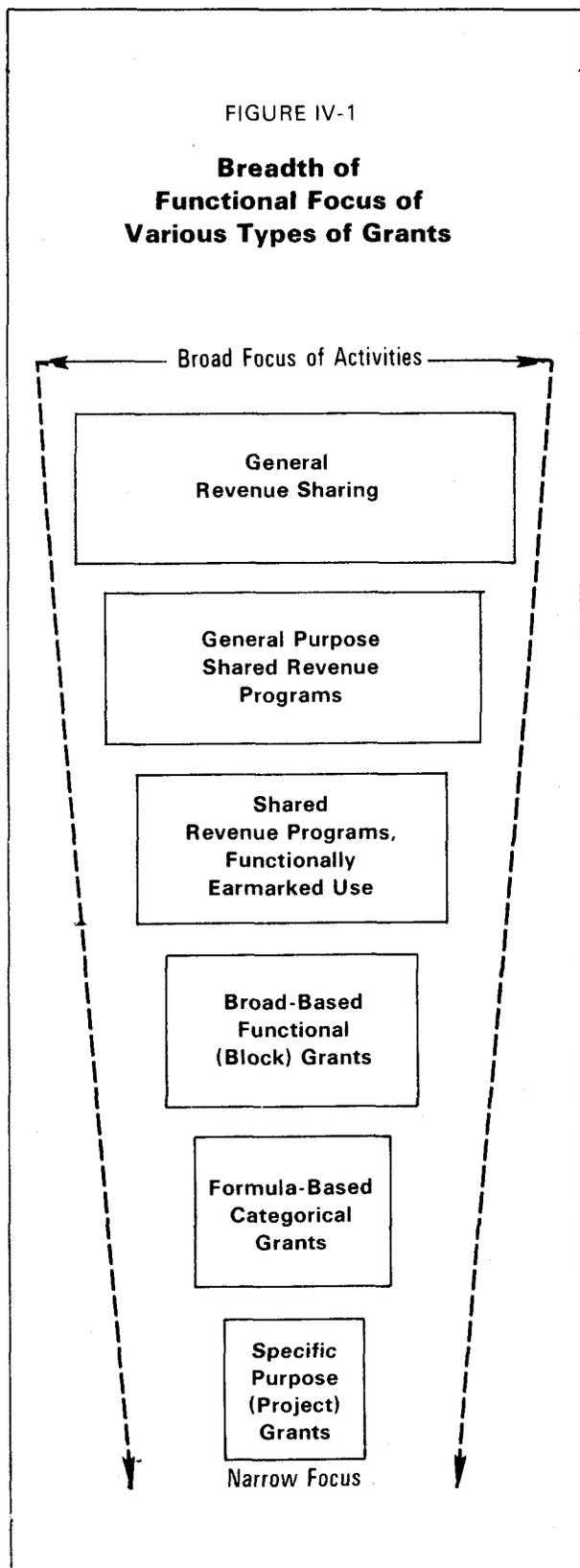
^cFour local grants received through state or by state approval.

^dFour grants received through state or by state approval.

^eTwo grants received through state or by state approval.

Source: ACIR staff tabulations.

FIGURE IV-1
**Breadth of
 Functional Focus of
 Various Types of Grants**



ernments and, particularly, with private nonprofit groups. The latter condition occurs especially in the human services areas (education, health, and social services).

Of the project grants studied, 180 or about 61% required recipients to participate in the cost of the financed activities. Moreover nearly half of these cost participation requirements called for the non-federal share to be equal to at least 25% of the project cost.

Project grants not requiring nonfederal cost-sharing provisions or matching are concentrated in the elementary, secondary, and vocational education areas. Of the 48 project grants identified in these three education program areas, 36 or 75% did not require any specific matching of the federal contribution. Appendix *Table IV-A2* lists the 116 project grant programs that do not require cost-sharing on the part of the recipients, including 70 that do not restrict eligibility to governmental units. The latter group—nongovernmental recipients—are scattered fairly widely among all the functional groups, with the notable exception of disaster relief and insurance as well as public assistance and other income supplements.

PURPOSES OF PROJECT GRANTS

ACIR staff classified the 296 project grants according to apparent Congressional purpose, following the same procedure used to classify formula-based grants. The results are shown in *Table IV-8*.

As in the case of formula-based grants, the largest single group are national programs, although not as high a percentage (15.9% compared to 26.0%). These include, for example, clusters of nine disaster assistance programs, and six manpower programs.

The most notable difference between the two forms of categorical grants is the relative share of programs used for stimulative and support purposes. About 52% of the formula grants were seen as supportive in total or to a substantial degree (the first three groups listed in the table); only about 29% of the project grants were for that purpose. On the other hand about 34% of the formula grants fell in the stimulative category, in total or in part, whereas 57% of the project grants were located in that group. Clearly Congress views the project grant as more useful for stimulative purposes and the formula-based categorical as better suited to support. Significantly a substantial share of the stimulative purpose grants are for research or demon-

stration (75 of the 170 wholly or partly stimulative grants), activities that state and local recipients are not inclined to engage in on their own initiative.

Capacity building made up about the same share of both types—about 5%. Twenty-one project grants were regarded as having a capacity-building purpose, in part or in total. Among the formula-based grants, nine were counted. The total of 30 suggests that more capacity building may be going on at the state and local levels through the federal categorical grant mechanism than is generally appreciated, at least as the term “capacity building” is used in the ACIR staff analysis.

Training appeared to be the sole purpose of 4.4% of the project grants, with none of the formula grants falling in this category. Training in this context was defined as mainly fellowships and traineeships. Such grants were distinguished from inservice training grants (included under capacity building) by their long-term character and their use of institutions of higher education for professional training.

A final point on project grant purposes concerns the number that seem to have dual or multiple purposes. As with formula grants, about one-fifth of the project grants were expected to meet two or more purposes.

COMPETITION FOR GRANTS

Formula-based grants minimize administrative discretion and grantsmanship, inasmuch as funds are distributed largely on the basis of a legal entitlement rather than administrative judgment and the relative ability of potential recipients to press their claims for funds. In general formula-based grants tend to restrict competition while project grants tend to encourage competition among potential recipients. The degree of competition also may be constrained by the fund amounts available relative to the number of eligible potential recipients. *Figure IV-2* ranks the various grant mechanisms generally according to the degree of discre-

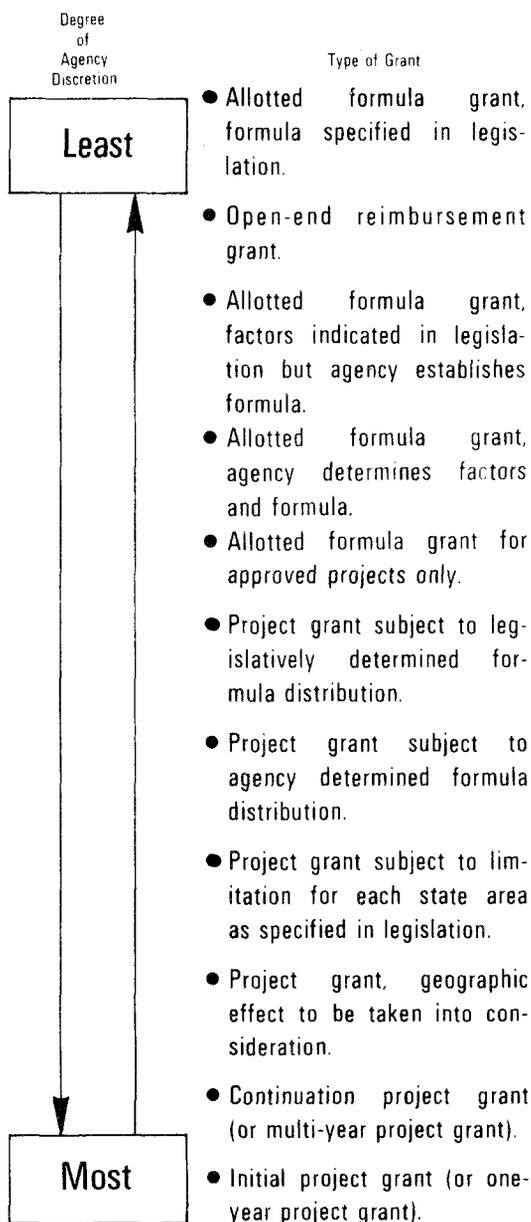
Table IV-8
Project (Nonformula) Categorical Grants Classified by Apparent Congressional Purpose, FY 1975

Apparent Congressional Purpose	Number	Percent
Support	25	8.5%
Started as stimulative, now support	16	5.4
Part stimulative (operations)/part support	44	14.9
Stimulative (operations)	42	14.2
Stimulative (research)	12	4.1
Stimulative (demonstration)	32	10.8
Stimulative (facilities construction)	4	1.4
Stimulative (capacity building)	4	1.4
Stimulative (research and demonstration)	24	8.1
Part stimulative (demonstration)/part support	1	0.3
Part stimulative (facilities)/part support	1	0.3
Part stimulative (demonstration)/part capacity building	1	0.3
Part stimulative (operations)/part stimulative (demonstration)	5	1.7
Part support/part capacity building	1	0.3
Training	13	4.4
Capacity building	15	5.1
Part capacity building/part training	4	1.4
Complementary grant	5	1.7
National program	47	15.9
TOTAL	296	100.2%

Source: ACIR staff tabulations.

FIGURE IV-2

**General Ranking of
Categorical Grant Mechanisms
by Degree of Discretion
Exercised by Grantor Agency**



tion exercised by the grantor agency in making grants and determining grant recipients.¹⁸ The issue of competition merits further explication, because it reveals differences between formula-based and project grants and among types of project grants.

When competition exists for grant funds, it can be either interstate or intrastate in nature. Where competition is universal among eligible recipients, and the best proposal is approved for funding regardless of the nationwide location of the applicant, the grants can be classified as **interstate competitive grants**. Project grants that have no formula for state allocation and are administered on a national basis fall in this category. The degree of competition, however, may be tempered by either statutory or administrative limits on the size of a grant to any one recipient, thus allowing the funds to be spread more widely.

Competition is on a different scale in the case of project grants that have allocation formulas for determining state area allotments. Functionally these programs extend into areas such as recreational resources, water pollution prevention and control, transportation, community development, elementary and secondary education, and manpower development and training. Because competition for project approval and funding is among potential recipients within the same state, these grants can be classified as **intrastate competitive grants**. Formula grants to states that are in turn passed through by state agencies to substate recipients on a competitive project basis also might be classified in this category.¹⁹

Even for a completely competitive, unrestricted grant-making situation—whether interstate or intrastate—the highest priority grant applications are not necessarily the only ones funded. Grantsmanship enters in, which means that applicants with the know-how, resources, and influence have an edge in the competition. On the grantor side other considerations, sometimes political in nature, may influence approval of a project. When such considerations have little to do with an applicant's relative need or capacity to use grant funds effectively, the administrator is open to criticism of abusing discretionary power.

For those grant types under which agency discretion is most restricted, grantsmanship generally is thought to be nonexistent, at least for those directly eligible under the formula. However grantsmanship-like activities that apply to allotted formula grant programs exist. With such programs ef-

forts to increase the amount of federal funds flowing into a jurisdiction fall into three areas: (1) lobbying on the part of recipients for changes in the formula factors or in the weighting of factors in the formula, (2) efforts to increase the relative share of all grant funds for those programs under which the formula distribution is most favorable, and (3) attempts to assign a higher percentage of local costs in those programs where reimbursement is possible. With project grants subject to formula distribution, the allocation formula also is subject to modification through these types of efforts. Decisions on project grants awarded within these allocations are, of course, prime targets for grantsmanship ploys.

REQUIREMENTS FOR THE NONFEDERAL SHARE OF FEDERAL GRANTS

Matching requirements were referred to briefly in the separate descriptions of formula-based and project grants. In this section consideration is given to certain aspects of matching applicable to both types of categorical grants. The marked absence of requirements for grantee matching is a notable feature of current grant requirements. Almost 40% of the 442 grants identified as operating during FY 1975 did not include matching requirements.

This situation does not necessarily mean that the federal grant covers the total cost of the programs in these cases. Even when matching is not required per se, state or local governments may contribute significant amounts of own-source funds for the aided activity, either voluntarily or because of other grant conditions. For instance a maintenance-of-effort requirement may have an effect similar to a matching provision; at least 85 such requirements were identified among the 442 grant programs. In other cases legislation may not specify a particular matching requirement but may direct the administering agency to require some contribution from the grant recipient. Finally, a grant recipient may have to contribute to the project because certain costs are excluded from the definition of those allowable in the grant agreement.

Appropriation acts may include provisions that result in cost-sharing situations. For instance the 1975 appropriation act for the U.S. Department of Housing and Urban Development and Space, Science, Veterans, and certain other independent agencies states:

None of the funds provided in this act may be used for payment, through grants or contracts, to recipients that do not share in the cost of conducting research resulting from proposals for projects not specifically solicited by the government: *Provided*, that the extent of cost-sharing by the recipient shall reflect the mutuality of interest of the grantee or contractor and the government in the research.²⁰

Similarly the FY1974 appropriation act covering the U.S. Departments of Labor and Health, Education, and Welfare (HEW) stipulates that federal grant funds cannot be used to pay 100% of the cost of an aided research project.²¹ In other cases the cost-sharing arrangement may be negotiated on a case-by-case basis.²²

As illustrated in *Figure IV-3*, relatively few federal grant programs now require a nonfederal matching share of 50% or more. *Table IV-9* shows that less than half of all grants required the grantee to pay more than 10% of the cost of the grant-aided activities. However these analyses are based on minimum requirements for matching and do not reflect the actual nonfederal contribution to overall program costs.

Table IV-9
**Distribution of Categorical Grant Programs,
By Magnitude of Nonfederal Matching
Required, FY 1975**

Nonfederal Matching Requirement	Percent of Total Number of Programs
No Matching ^a	38.5%
Five Percent	3.6
Ten Percent	8.8
Subtotal	(50.9)
Twenty Percent	5.0
Twenty-Five Percent	8.8
Thirty to Thirty-Five Percent	6.1
Fifty Percent	13.4
Not Specified	9.5
Other ^b	6.3

Note: Numbers may not add due to rounding.

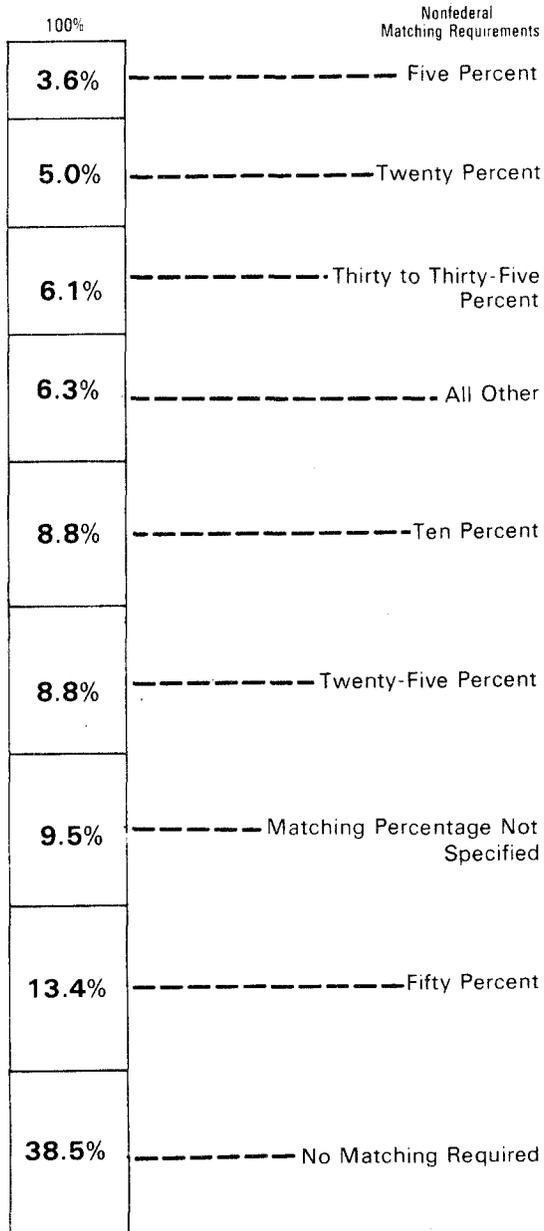
^aIncludes nine programs where the grantee is expected or required to share in the cost of the project even though there are no statutory matching requirements.

^bIncludes variable matching requirements and others which cannot be classified separately.

Source: ACIR staff tabulations.

FIGURE IV-3

Distribution of Categorical Grant Programs by Magnitude of Nonfederal Matching Required (Fiscal Year 1975)



In some grant programs different cost-sharing percentages may be applied for different activities and recipients. For instance air pollution prevention and control grants pay 50% of ongoing program costs but 67% of planning and improvements costs. Sometimes activities such as construction of facilities, training, or delivery of services may each require a different cost-sharing percentage. In some cases only part of the federal grant requires recipient cost-sharing. For example the first \$90,000 allocated to state agricultural experiment stations for support grants is 100% federally funded, with any allotment in excess of that amount requiring 50% cost-sharing. Under the maternal and child health services and crippled children services grants, the amounts available are divided into two funding structures—referred to as the “A” and “B” funds—with matching required only for funds under “A”.

In other cases matching requirements are adjusted for recipients in geographic areas deemed to have special needs. For instance for consumer and home-making education programs conducted under the vocational education program authorization, grant recipients are to provide one-half of the program cost, except for projects in an economically depressed area, for which the recipient share is 10%.

Matching rates for some grants are gradually increased over the duration of the grant. Comprehensive environmental education grants, for example, provide that the federal share of a grant may not exceed 80% during the first year, 60% for the second year, and 40% for the third year. Initial staffing grants for vocational rehabilitation facilities, community mental health centers, alcoholic rehabilitation facilities, facilities for attending to the mental health of children, narcotic treatment facilities, as well as Veterans Administration assistance in establishment of new medical schools, and health manpower education initiative awards all provide for a decreasing federal share of project costs over the duration of the grant.

Grant statutes sometimes allow the Secretary to increase the federal share under stated conditions or under conditions that are determined to call for a higher federal share. In addition limited authority may be given to the Secretary to waive requirements for recipient cost-sharing to further the program’s goals.

When matching is required for a program, it may not always apply to each project activity within a state. For instance under the vocational education program, provision is made for statewide ap-

plication of the nonfederal share of expenditures under the state plan. Regulations detail the federal share for various subprograms, but stipulate:

The nonfederal share of expenditures under the state plan may be on a statewide basis. It is not necessary that federal funds be matched by nonfederal funds for each school, class, program, or activity or, in the case of funds allotted under Part B, for each of the purposes in Section 122(a) of the act. Only the total expenditures from

each allotment to the state (or portion thereof subject to the same federal share percentage limitation) will be considered in determining the required nonfederal share of such expenditures.²³

Functional Distribution of Matching Requirements

On a functional basis *Table IV-10* reveals the following patterns in the matching requirements among the categories with the most programs:

Table IV-10
Categorical Grants: Nonfederal Matching Requirements According to Functional Activity

Functional Category ^a	Nonfederal Matching Requirements								Total
	No Match	5%	10%	20%	25%	30-35%	50%	Other ^b	
Department of Defense- Military	—	—	—	—	1	—	4	—	5
General Science and Basic Research	—	—	—	—	—	—	—	1	1
Natural Resources, En- vironment, and Energy	5	14	—	1	9	4	19	3	55
Agricultural Research and Services	3	—	—	—	—	—	5	—	8
Commerce and Transpor- tation (Ground Transportation)	9 (6)	—	9 (8)	2 (2)	7 (4)	15 (14)	5 (2)	4 (1)*	51 (37)
Community and Regional Development	15	1	3	7	11	4	5	5	51
Education, Training, Employment, and Social Services (Elementary, Secondary, and Vocational Education)	91* (58)	1 (—)	16* (4)	11 (5)	9* (3)	2 (—)	7 (2)	19 (6)	156 (78)
(Social Services)	(9)	(1)	(8)	(4)	(5)	(1)	(—)	(8)	(36)
Health	28	—	4	1	1	—	6	31*	71
Public Assistance and Other Income Supplements	14 ^c	—	—	—	1	—	3*	4**	22
Hospital and Medical Care for Veterans	—	—	—	—	—	2	3***	1	6
Law Enforcement Assistance	5	—	7	—	—	—	—	1	13
General Property and Records Management	—	—	—	—	—	—	—	1	1
Other General Government	—	—	—	—	—	—	2	—	2
TOTAL	170	16	39	22	39	27	59	70	442

^aBudget functional or subfunctional categories are shown as appropriate.

^bIncludes some grants for which matching is variable or declining, or where recipient was expected to share in the cost even though there were no formal matching requirements.

^cIncludes three grants not requiring matching of the federal payment, but grant represents only a portion of the costs.

*Includes one open-end reimbursement grant.

**Includes five open-end reimbursement grants.

***Includes three open-end reimbursement grants.

Source: ACIR staff tabulations.

- In the largest single grouping (elementary, secondary and vocational education), almost three-fourths of the programs had no matching requirement. These programs comprised about one-third of the total of 170 non-matching programs.
- Of the 71 health programs, 28 also required no matching.
- Over one-third of the 55 natural resources, environment, and energy programs required 50% nonfederal matching.
- Matching for the 37 ground transportation programs clustered in the 35% and lower matching range, with only two programs requiring a match above 35%.

Shifts in Nonfederal Matching Requirements

Nearly all matching requirements applicable during FY 1975 were the same as those in effect when the programs were enacted. For those few programs where specific legislative changes in matching requirements were identified, all but one—the fish restoration and management program—provided for an increase in the federal share of the program costs.²⁴

Although some changes were applicable only to part of the program activities or only for certain recipients, in general the increased federal share was for all activities covered by the affected grants. *Table IV-11* lists the 23 programs in operation in 1975 for which the federal share of program costs was increased by legislation enacted since 1967.

In some cases the rationale for changes in matching rates can be determined from the provision itself. For instance when the federal share is raised for certain grant recipients while leaving the rate unchanged for others, Congress presumably was providing for the special needs of the former.

Congress usually does not provide an explanation of changes made in matching requirements or of the various cost-sharing requirements initially enacted. However with the passage of a hike in the federal share for highway programs in 1970, the House Public Works Committee explained in its report that an increase in the federal percentage from 70% to 90% would ease the transition states faced at the end of the interstate highway program, which included a 90% federal participation rate.²⁵

THE PATTERN OF ADMINISTERING AGENCIES

A common complaint from state and local government recipients about categorical grants is the complexity of administration involved in obtaining and using them. Their criticism stems mainly from the profusion of conditions attached to the grants. To a lesser extent they blame the number of separate departments and agencies that administer one or more grants. As shown in *Table IV-12* eight major departments and 13 other agencies are involved in administering one or more grants.

HEW has by far the greatest share—about 46% of the total—42% of the formula grants and 48% of the project grants. The Office of Education accounts for almost half of the HEW total, with the Public Health Service responsible for another one-third of those administered by the Department. The Office of Education leans toward formula grants more so than does the Public Health Service.

Next most prominent among the Departments from the standpoint of number of grants administered are Agriculture and Transportation (DOT), each of which manages nearly a tenth of the overall total. Agricultural grants are divided almost equally between formula-based and project, whereas DOT has many more formula than project grants, reflecting the dominance of the long-established highway programs in that Department's grants inventory.

The remaining grants are distributed widely among other departments and agencies, no one of which administers more than about 5% of the total number.

In their complaints about federal management of categorical grants, state and local officials sometimes cite the number of agencies they must deal with in seeking funds for specified functional areas. *Table IV-13* attempts to throw some light on this problem by showing how many separate agencies are involved in administering the various categorical grants within each budget subfunctional area used in this study.

- For 19 of the 32 subfunctional categories, only one agency was involved; the number of grants handled by the individual agency ranged from one to 37 (DOT—ground transportation) and a median of five.
- In six of the subfunctional areas, two agencies were involved; in three areas, three were

Table IV-11

**Federal Matching Provisions for Categorical Grant Programs in Effect in 1975
for Which Recent Legislation has Provided for an Increased Federal Share^a**

One Hundred Percent Federal Share

Disaster Assistance: Development of State Plans, Programs, and Capabilities (1974)
State Public Employment Offices: Administrative Expenses (1950)
Older Americans Programs: Model Projects (1973)

Ninety Percent Federal Share

Low-Rent Housing for Domestic Farm Labor (1970)
Work Incentive Program for Recipients of Aid to Families With Dependent Children (1971)
Lead-Based Paint Poisoning Prevention: Detection and Treatment of Lead-Based Paint Poisoning:
Development of Local Programs (1973)
Law Enforcement and Criminal Justice:
Basic Grants for Correctional Institutions and Facilities (1973)
Discretionary Grants for Correctional Institutions and Facilities (1973)
Discretionary Grants for Law Enforcement and Criminal Justice Purposes (1973)

Eighty Percent Federal Share

Urban Mass Transportation:
Grants for Technical Studies (1973)
Project Grants for Facilities and Equipment (1973)

Seventy-Five Percent Federal Share

Appalachian Regional Development:
Demonstration Health Projects (1967, raised Federal share for those years following the first two years)
Airport and Airway Development:
General Aviation Airports (1973)
Certified Air Carrier and Reliever Airports (1973), for those airports enplaning less than 1% of total
annual passengers)
Noncommercial Educational Broadcasting Facilities (1967)

Seventy Percent Federal Share

Highways:
Emergency Relief (1970)
Federal-Aid Primary and Secondary Systems Extensions Within Urban Areas (1970)
Federal-Aid Primary System in Rural Areas (1970)
Federal-Aid Secondary System in Rural Areas (1970)

Two-Thirds Federal Share

Comprehensive Planning Assistance (1961)
Community Service and Continuing Education Programs: Basic Grants (1968)

Sixty-Five Percent Federal Share

Veterans Hospital and Medical Care:
Construction of State Nursing Home Facilities (1973)
Remodeling or Alteration of State Nursing Home Hospital/Domiciliary Facilities (1973)

^aYears shown are dates of enactment of new provisions.

Source: ACIR staff tabulations.

engaged; another three had four grantor agencies; and one budgetary subfunction had grants from five agencies.

- Community development was the five-agency functional category, which tends to bear out the sensitivity of local officials on this issue, particularly those from urban jurisdictions.
- The two four-agency subfunctions were area and regional development and prevention and control of health, again of concern to local officials. Water resources and power and social services were the two subfunctions involving three grantor agencies.

In summary 25 of the 32 subfunctional areas, accounting for two-thirds of the categorical grants, required dealing with no more than two grantor agencies. In a few functional areas of great im-

portance to local, and especially urban, officials, from three to five agencies were involved.

CONGRESSIONAL COMMITTEE JURISDICTION

Legislation authorizing grant programs originates in Congressional legislative committees, which also are responsible for overseeing administrative agencies' implementation of programs. *Tables IV-14* and *IV-15* illustrate the distribution of the 442 categorical programs among the legislative committees of the Senate and House, respectively.

The pattern of committee responsibility is quite similar to the pattern of grant distributions among administrative departments and agencies, as is seen by a comparison of *Tables IV-14* and *IV-15* with *Table IV-12*. This situation is understandable because both Congressional committee jurisdictions and agency assignments are generally on a func-

Table IV-12
Categorical Grant Programs, By Type and Administering Agency, FY 1975

Department or Agency	Formula		Project		Total	
	Number	Percent	Number	Percent	Number	Percent
Agriculture	20***	13.7%	19	6.4%	39	8.8%
Appalachian Regional Commission	—	—	14	4.7	14	3.2
Commerce	5*	3.4	17	5.7	22	5.0
Environmental Protection Agency	3	2.1	20	6.8	23	5.2
HEW	(61)	(41.8)	(142)	(48.0)	(203)	(45.9)
Office of Secretary	—	—	4	1.4	4	0.9
Education	40	27.4	54	18.2	94	21.3
Human Development	8	5.5	25	8.4	33	7.5
Public Health Service	6	4.1	55	18.6	61	13.8
Social & Rehabilitation Service	7****	4.8	4	1.4	11	2.5
HUD	—	—	16	5.4	16	3.6
Interior	7	4.8	10	3.4	17	3.8
Justice	3	2.1	10	3.4	13	2.7
Labor	11*	7.5	9	3.0	20	4.5
Transportation	26	17.8	17	5.7	43	9.7
Other^a	10**	6.8	22	7.4	32	7.2
TOTAL	146	100.0%	296	99.9%	442	99.7%

^aACTION, Civil Service Commission, Community Services Administration, Department of Defense, General Services Administration, National Foundation on the Arts and the Humanities, National Science Foundation, Regional Planning Commission, Small Business Administration, Veterans Administration, and Water Resources Council.

* Includes one open-end reimbursement program.

** Includes three open-end reimbursement programs.

*** Includes four open-end reimbursement programs.

**** Includes five open-end reimbursement programs.

Source: ACIR staff tabulations.

tional basis. Examining the principal concentrations of grants:

- In 1975 the Senate Labor and Public Welfare Committee (renamed Human Resources Committee in the 1977 reorganization) had jurisdiction over about 53% of the grants, including the bulk of HEW grants that made up 46% of the total number. In the House health programs were assigned to the Interstate and Foreign Commerce Committee and the remainder of the health, education, and welfare programs came under the Education and Labor Committee. These two House committees accounted for about 54% of the total categoricals, comparable to the portion handled by the Labor and Public Welfare Committee of the Senate.
- The Senate Public Works Committee's 20.1% share of the total number of grants included those administered by DOT, the Environmental Protection Agency, and the Appalachian Regional Commission, and the disaster relief and insurance grants handled by HUD. On the House side the grant jurisdiction of the Public Works and Transportation Committee was similar to that of its Senate counterpart.

The concentration of grants in a few committees in both houses has important implications for effective grant oversight. First it raises the question whether the affected committees can deploy sufficient resources to perform adequate oversight. On the other hand the functional relationship among grants concentrated in a few committees should facilitate efforts to achieve grant merger. Both considerations have a bearing on the possible success of a "sunset" review applied to grant programs.

SUMMARY AND CONCLUSION

In all the discussion and literature concerning categorical grants to state and local governments, observers generally agree that they are numerous but disagree on actual numbers. ACIR staff sought to bring more certainty to this issue by researching federal statutes and other documents to identify the grants to states and localities that are authorized and operational, i.e., funded. The resulting inventory of grants authorized and funded as of January

1, 1975 (FY 1975) provides the factual basis for the description and interpretation of the categorical grant system within this chapter. Among the highlights of the findings and conclusions from this analysis are the following:

- On January 1, 1975, 442 funded federal categorical grants were available to state and local governments. However a 1,000-plus figure is often cited.
- The 442 categorical grants consisted of 146 formula-based grants and 296 project grants. The formula-based grants were divided between 96 allotted formula grants, 35 formula-project grants, and 15 open-end reimbursement grants.

Formula-Based Categoricals

Although formula-based grants represented only one-third of the total number of categorical grants, they accounted for about two-thirds of the grant dollars.

- More than one-third of formula-based programs were for elementary, secondary, and vocational education and ground transportation (mainly highways). These two groups accounted for 42 of the 96 allotted formula grants. Other human services programs, such as social services, public assistance, and training and employment, constituted another one-quarter.
- For more than two-thirds of the formula-based grants, state governments were the exclusive recipients, reflecting the heavy emphasis on federal-state formula-based grants in the early use of the categorical grant instrument.
- About two-thirds of the formula-based grants required recipient matching. Among the allotted formula grants, cost-sharing provisions were least common in the field of education.

Congressional purpose in establishing grants is often not clear and therefore subject to varying interpretations. Conscious of these difficulties ACIR staff nevertheless undertook to classify the 442 categorical grants on the basis of apparent Con-

Table IV-13

**Distribution of Categorical Grants Among Administering Agencies, By
Budget Subfunction and Grant Type, FY 1975**

Budget Subfunction	Agency	Number of Grants		Total
		Formula	Project	
051—Department of Defense- Military	DOD	2	3	5
251—General Science and Basic Research	National Science Foundation	—	1	1
301—Water Resources and Power	Agriculture Interior	— 1	1 3	1 4
302—Conservation and Land Management	DOD Agriculture Commerce	1 3 1	1 7 1	2 10 2
303—Recreational Resources	Interior	6	2	8
304—Pollution Control and Abatement	EPA	3	20	23
306—Other Natural Resources	Commerce	1	4	5
352—Agricultural Research and Services	Agriculture	5	3	8
401—Mortgage Credit and Thrift Insurance	Agriculture	—	2	2
403—Other Advancement and Regulation of Commerce	Commerce SBA	— —	2 2	2 2
404—Ground Transportation	DOT	22	15	37
405—Air Transportation	DOT	2	1	3
406—Water Transportation	Commerce DOT	2* 1	— 1	2 2
407—Other Transportation	DOT	1	—	1
451—Community Development	Agriculture Commerce HUD CSA ACTION	1 — — 1 —	1 1 4 3 4	2 1 4 4 4
452—Area and Regional Development	Agriculture Commerce ARC RPCs	2 1 — —	— 8 14 2	2 9 14 2
453—Disaster Relief and Insurance	HUD	—	9	9
501—Elementary, Secondary, Vocational Education	HEW-OE HEW-OHD	30 —	45 3	75 3
502—Higher Education	HEW-OE	4	5	9
503—Research and General Education Aids	HEW-OE Natl. Fdtn. on Arts & Humanities	6 — 1	— — 2	— — 3

Table IV-13

**Distribution of Categorical Grants Among Administering Agencies, By
Budget Subfunction and Grant Type, FY 1975**

Budget Subfunction	Agency	Number of Grants		Total
		Formula	Project	
504—Training and Employment	HEW-SRS	1	—	1
	Labor	10**	7	17
	Commerce	—	1	1
505—Other Labor Services	Labor	1	—	1
506—Social Services	HEW-OHD	8	21	29
	HEW-SRS	3*	—	3
	HEW-OS	—	4	4
551—Health Care Services	HEW-PHS	3	24	27
	HEW-SRS	1*	—	1
552—Health Research and Education	HEW-PHS	—	22	22
553—Prevention and Control of Health	HEW-PHS	1	9	10
	Agriculture	—	2	2
	Interior	—	5	5
	Labor	—	2	2
554—Health Planning and Construction	HEW-PHS	2	—	2
604—Public Assistance and Other Income Supplements	Agriculture	9***	3	12
	HEW-SRS	2**	4	6
	HEW-OHD	—	1	1
	HUD	—	3	3
703—Hospital and Medical Care for Veterans	VA	4****	2	6
754—Law Enforcement Assistance	Justice	3	10	13
804—General Property and Records Management	GSA	—	1	1
806—Other General Government	CSC	1	1	2
TOTAL		146	296	442

SUMMARY

Number of Agencies Involved	Number of Subfunctional Categories	Grants	
		Number	Percent
1 agency	19	158	35.7%
2 agencies	6	139	31.4
3 agencies	3	62	14.0
4 agencies	3	68	15.4
5 agencies	1	15	3.4
TOTAL	32	442	99.9%

*Includes one open-end reimbursement grant.

**Includes two open-end reimbursement grants.

***Includes four open-end reimbursement grants.

****Includes three open-end reimbursement grants.

Source: ACIR staff tabulations.

gressional purpose, using a modification of an approach employed in a 1969 Senate Committee study. The results indicate that for formula-based grants:

- Well over one-half apparently were intended entirely or substantially for support of traditional state and local activities.
- Another one-fourth seemed aimed at financing state and local efforts in behalf of mainly national programs, such as food stamps, disaster assistance, and manpower.
- Stimulation of new or expanded state-local activity and building state-local management capacity apparently were relatively minor objectives of Congressional intent in authorizing formula grants.
- Among formula-project grants, stimulation appeared to be a much more frequent pur-

pose than in the case of allotted formula grants. For about one-fifth of all formula-based grants, Congress appeared to have dual purposes in mind.

For roughly three-quarters of the 146 formula-based grants, Congress clearly stated the allocation factors and their formula weights in the authorizing legislation. For the remaining one-fourth, some degree of administrative discretion was permitted in determining the allocation formula.

Congress has used various factors in the construction of allocation formulas. Most common is population, either in total or for some segment of the whole. Some 30 formula-based programs were based to some extent on a factor representing financial need, usually per capita income. In some of these cases the income factor was used to achieve a degree of equalization of states' fiscal resources, however imperfectly.

Table IV-14
**Number of Categorical Grants, By Senate Legislative Committee
 Jurisdiction and Type of Grant, FY 1975**

Legislative Committee	Type of Grant			Total	
	Allotted Formula	Formula/Project	Project	Number	Percent
Agriculture and Forestry	8*	5	13	26	5.9%
Armed Services	1	1	3	5	1.1
Banking, Housing and Urban Affairs	—	—	9	9	2.0
Commerce	7*	3	14	24	5.4
Finance	9***	—	8	17	3.8
Government Operations	—	—	1	1	0.2
Interior and Insular Affairs	1	4	9	14	3.2
Judiciary	3	—	10	13	2.9
Labor and Public Welfare	60****	13*	163	236	53.4
Post Office and Civil Service	—	1	1	2	0.5
Public Works	18	8	63	89	20.1
Veterans Affairs	3**	1	2	6	1.4
TOTAL	110	36	296	442	99.9%

*Includes one open-end reimbursement grant.

**Includes three open-end reimbursement grants.

***Includes four open-end reimbursement grants.

****Includes five open-end reimbursement grants.

Source: ACIR staff tabulations.

Table IV-15
**Number of Categorical Grants, By House Legislative Committee
 Jurisdiction and Type of Grant, FY 1975**

Legislative Committee	Type of Grant			Total	
	Allotted Formula	Formula/Project	Project	Number	Percent
Agriculture	7*	5	14	26	5.9%
Armed Services	1	1	3	5	1.1
Banking, Currency and Housing	—	—	9	9	2.0
Education and Labor	58***	12*	107	177	40.0
Government Operations	—	—	1	1	0.2
Interior and Insular Affairs	1	4	9	14	3.2
Interstate and Foreign Commerce	4	2	57	63	14.3
Judiciary	3	0	10	13	2.9
Merchant Marine and Fisheries	7*	1	6	14	3.2
Post Office and Civil Service	—	1	1	2	0.5
Public Works and Transportation	18	9	63	90	20.4
Science and Technology	—	—	2	2	0.5
Small Business	—	—	3	3	0.7
Veterans Affairs	3**	1	2	6	1.4
Ways and Means	8***	—	9	17	3.8
TOTAL	110	36	296	442	100.1%

*Includes one open-end reimbursement grant.

**Includes three open-end reimbursement grants.

***Includes four open-end reimbursement grants.

Source: ACIR staff tabulations.

Project Grants

The numerical dominance of project grants among categoricals is a phenomenon of the past 20 to 25 years, stemming from heightened national concern about urban needs, the failure of state governments and the traditional federal-state formula grant to reach those needs, the increasing use of nongovernmental as well as governmental agencies to attack community problems, and efforts to encourage innovative approaches on an experimental or demonstration basis.

- Nearly one-half of the project grants were for human services in health, education, and social services.

- Exclusive eligibility for state governments was much less common than for formula-based grants, but very few project grants went solely to local governments. Private groups represented a significant portion of the potential recipients, especially in the human services areas.

- Over half the project grants required recipient cost-sharing. Those not requiring such sharing were concentrated in the elementary, secondary, and vocational education areas.

Analysis of apparent Congressional intent indicated that compared to formula grants, project grants were used more for stimulative purposes and

less for supporting traditional state-local activities. A substantial share of the stimulative-purpose project grants were for research and demonstration. Other findings on project grant purposes include:

- A total of 30 formula and project grants appeared to be directed entirely or in part at state/local capacity building, suggesting that the federal categorical grant was used more for capacity building than is generally appreciated.
- About one-fifth of the project grants appeared to have two or more Congressional purposes.

Unlike formula grants, project grants encourage competition among eligible recipients, either on an interstate basis (where recipients compete nationwide) or on an intrastate basis (where, under formula-project grants, project grants are first subject to a state-area allocation). Either type of competition fosters grantsmanship.

Nonfederal Matching Requirements

Almost 40% of the categorical grant programs in FY 1975 did not require recipients to provide matching dollars. However for some of these programs, recipients provided funding either voluntarily or because of other conditions, such as a Congressional mandate that agencies require some recipient contributions or a maintenance-of-effort provision. Few grants required a nonfederal match of 50% or more; less than one-half required more than a 10% match.

In some grant programs different cost-sharing ratios were applied for different types of activity or recipient. In others matching requirements were adjusted for geographic areas with special needs.

In the functional area with the largest number of grant programs (elementary, secondary, and vocational education), almost three-fourths of the programs had no recipient cost-sharing stipulation. These grants constituted about one-third of the total of 178 nonmatching programs. Almost one-half of the 71 health programs also required no

match. On the other hand over one-third of the 55 national resources, environment, and energy programs required 50% nonfederal matching.

Congress changed the matching percentage subsequent to initiation of the program for only 23 of the 442 categorical programs. In all these cases the change was an increase in the federal share.

The Pattern of Administering Agencies

Analysis of the distribution of grants among administering federal agencies gives some credence to state and local recipients' complaints about the multiplicity of grantor agencies:

- The 442 categorical grants were administered by eight major departments and 13 other agencies. The greatest concentration was in HEW, which was responsible for almost one-half the total. The Office of Education accounted for one-half the HEW total; the Public Health Service for another one-third.
- From the standpoint of number of agencies involved in separate functional areas, the picture is mixed. Twenty-five of the 32 sub-functional areas, accounting for two-thirds of the categorical grants, required dealing with no more than two grantor agencies. Yet in a few functional areas highly important to local officials, and particularly urban ones, from three to five agencies were involved.

Congressional Committee Jurisdiction

Responsibility for authorization and oversight of categorical grants is distributed among Congressional committees in a functional pattern similar to distribution of administrative responsibility among executive branch agencies. The Labor and Public Welfare (now Human Resources) and Public Works Committees in the Senate and the Interstate and Foreign Commerce, Education and Labor, and Public Works and Transportation Committees in the House have the bulk of the categorical grants under their jurisdictions.

FOOTNOTES

¹U.S. Congress, House of Representatives, Committee on the Judiciary, *United States Code, 1970 Edition Through Supplement IV*, Washington, DC, U.S. Government Printing Office, 1971, 1975.

²See *Part I* of this volume.

³For a more detailed description of the methodology used to determine a "program" for which state and local governments were eligible to receive funds under operating programs, see Technical Note 1 in the Appendix to this chapter.

⁴For a more detailed probe of Congress' predilection for categoricals, see *Chapter III* of this volume.

⁵In *Tables IV-2, IV-3, IV-4, IV-6, IV-10, IV-12, and IV-13*, and Appendix *Table IV-A1*, the customary allocated formula/formula-project breakdown is shown, but the 14 open-end reimbursement grants are identified by footnote symbols.

⁶Subcommittee on Intergovernmental Relations, *Federal Programs of Grants-in-Aid to State and Local Governments*, U.S. Congress, Senate, Committee Print, Sept. 22, 1969, pp. 8, 24-93.

⁷These include a wide-ranging group of programs that use formulas established by regulation according to legislative direction, such as Coastal Zone Management: Development of Management Program (16 U.S.C. 1454(e)), Water Pollution Prevention and Control: Pollution Control Programs (33 U.S.C. 1256(b)), and Development Disabilities: Basic Grants (42 U.S.C. 2672(a)).

⁸P.L. 93-383, Sec. 213(d).

⁹For example, Youth Conservation Corps: Projects for Employment of Youth on Non-Federal Public Lands; Cooperative Forest Fire Control; and Rural Community Fire Protection.

¹⁰Edward R. Fried, Alice M. Rivlin, Charles L. Schultze, and Nancy H. Teeters, *Setting National Priorities, The 1974 Budget*, Washington, DC, The Brookings Institution, 1973, p. 181.

¹¹Department of the Interior, National Park Service, Division of Grants, "Historic Preservation of Grants-in-Aid Apportionment Formula," Feb. 4, 1976.

¹²23 U.S.C. 136(b).

¹³23 U.S.C. 402(c).

¹⁴Excluding those cases where per capita income was used.

¹⁵See Advisory Commission on Intergovernmental Relations, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (M-58), Washington, DC, U.S. Government Printing Office, March 1971.

¹⁶See the later section of this chapter that discusses matching provisions and the separate chapter on matching in this volume.

¹⁷For another diagram of the scope of activities covered by the several grant types, see *Part I* of this volume, *Figure 1*.

¹⁸For another diagram of the variations in grantor agency discretion by type of grant, see *Part I* of this volume, *Figure 1*.

¹⁹For instance, federal regulations under the vocational education exemplary programs and projects apportionment (45 CFR 102.77) in effect detail the means of competition for funding. The regulations prescribe the procedures to be followed in reviewing and acting on applications for grants that have been submitted to the state vocational education boards in accordance with federal requirements.

²⁰P.L. 93-414, Sec. 404. This provision would cover grantmaking activities of the Department of Housing and Urban Development, the National Aeronautics and Space Administration, the National Science Foundation, and the Veterans Administration.

²¹P.L. 93-517, Sec. 203.

²²For example, in the *Catalog of Federal Domestic Assistance, 1976*, program statements 13.267 and 13.268 dealing with communicable disease programs state that although there are no specific matching requirements, applicants must assume part of the costs. Also, alcohol abuse and alcoholism prevention, treatment, and rehabilitation demonstration grants (13.252) are reported to have no matching requirements but grantees are expected to share in costs.

²³45 CFR 102.133(b).

²⁴This, of course, does not cover periodic recomputation by administrators of the federal percentage for aid programs.

²⁵Committee on Public Works, *Federal Aid Highway Act of 1970*, U.S. Congress, House of Representatives, H-Report 91-554 to accompany H.R. 19504, 91st Cong., 2nd Sess., 1970, pp. 13-14.

Appendix

TECHNICAL NOTE 1

Methodology and Terms Used in Compiling Grants Inventory

In compiling the basic information for the inventory of grants operating in 1975, necessary steps included establishing legislative authority for the grant programs covered; deciding which authorized activities were discrete programs and which were not; sorting out grants from other forms of federal financial assistance; and establishing which grants were operating and funded in FY 1975. Often these determinations were made on an ad hoc basis, but efforts were made to make them internally consistent.

COUNTING PROGRAMS

Programs were counted only if specific authority was found in the U.S. Code or public laws. Authorizing legislation mainly sets forth discrete activities that clearly warrant counting as individual programs. In some cases, however, the counting problem is not so simple. Some programs are authorized as earmarked activities under an authorization for a broader activity, or several alternative activities are listed as permissible under an overall activity strategy. In such cases the basic program authority was not disaggregated for counting purposes unless justified by supplementary information, such as references in regulations, listing in the *Catalog of Federal Domestic Assistance*, or citations in the same or other statutes.

An example of an item that is counted separately but not provided in separate legislation is the Summer Program for Economically Disadvantaged Youth. In the 1973 *Comprehensive Employment and Training Act*, Congress stated that financial assistance may be provided for comprehensive work and training programs and necessary supportive and followup services for the activities listed in the section.¹ One listed activity is "jobs, including those in recreation and related programs, for economically disadvantaged youths during the summer months." This is the authority cited for the summer program detailed in the *Federal Register*.² Included in the regulations is a formula for distributing available

funds and an application process, including use of preapplication forms.

The summer youth program highlights the difficulties underlying the counting of grant programs. Those difficulties are compounded when supplementary information is not available to provide clues. (Information about formulas not specifically defined in legislation is also difficult to obtain.) Education programs are the exception, because rules and regulations are required by Congress to be published in the *Federal Register*.³

Other difficulties that arise in determining the number of grant programs can be traced to legislation that (a) both enacts separate programs and provides for a consolidation of those programs in the same act—a procedure used in the Education Amendments of 1974,⁴ or (b) provides authority to an agency to make grants, contracts, or directly conduct the program at the discretion of the agency.

WHAT IS A GRANT?

For purposes of this compendium of grant programs, the OMB definition of grants that is used in preparing the budget estimates has generally been used, with a few notable exceptions.⁵ Shared revenues and payments in lieu of taxes have been excluded, as well as all loan programs. Additionally all aid programs to institutions of higher education have been classified according to the descriptions of eligible recipients. If the program provides aid exclusively to public institutions of higher education or if the state and local governments have a role in the grant process, it would be considered as a grant to state and local governments. If private nonprofit institutions of higher education are eligible to receive funds without any action on the part of a subnational governmental unit, even though public institutions also may be eligible for assistance, the program would not be included as a state-local government grant program. This exclusion reduces by about 15% the number of cash grants that customarily are cited as aids to state and local governments.

Excluded also are federal payments to state and local governments for activities conducted in support of federal programs. For example no grant

relationship is established under a legislative provision similar to one in the *Trade Act of 1974*, which states: "The Secretary shall from time to time certify to the Secretary of the Treasury for payment to each cooperating state the sums necessary to enable such state as agent of the United States to make payments. . . ."⁶

Instances exist where the relationship established between the federal government and a nonfederal governmental unit are not as clear as the *Trade Act* case. Cooperative agreements provide examples. Where no financial interrelationships are stated or implied in such agreements, the programs have not been considered grant programs. If, however, provisions exist for voluntary sharing of costs under cooperative programs conducted jointly by the federal and nonfederal governments, the programs generally are included as grant programs.

On the other hand if the federal government operates or controls a program and requires the nonfederal unit to contribute to the cost of the project, the program is not considered a grant program (for convenience, this is termed a "reverse grant"). For instance the Secretary of the Interior is authorized

to enter into an agreement with any state or political subdivision for the permanent management, development, and administration of lands within an estuary and adjacent lands that are owned or lakes acquired by a state or political subdivision. These agreements are to provide that the state or political subdivision and the Secretary share in an equitable manner in the costs.⁷

Also excluded from this compilation are programs specifically designed for a particular grantee or circumstance. An example is where federal assistance is available for construction of a particular bridge, or for a program to be conducted in one state or in a very limited, named project area.

DETERMINING FUNDING STATUS

Programs have been classified according to the subfunctional code assigned in the 1977 U.S. budget documents, whenever such information was available or could be derived. Where explicit coding was not available, subfunctional codes were assigned to conform to the classification codes of related programs for which coding information was available.

TECHNICAL NOTE 2

Classification of Categorical Grants According to Congressional Purpose

In the 1969 Senate subcommittee report, *Federal Programs of Grants-in-Aid to State and Local Governments*,⁸ the authors classified grants by 10 factors, one of which was "purpose." Purpose was intended to suggest Congressional emphasis or intent in authorizing the grant, and usually was identified as "support" or "stimulation." Support was used for grants where the provision of financial support for a program or activity appeared to be the dominant consideration. It was presumed to be the purpose when the federal government supplied 100% of the financing, except in a few cases where such funding appeared to be for demonstrations or planning. Stimulation was used where encouragement of action by recipient governments—particularly the introduction of new programs or the expansion of older ones—seemed to carry greater weight.

ACIR staff initially classified the purposes of the current grant inventory by using the support-stimulation-demonstration trichotomy employed in the 1969 effort. Clues to Congressional intent were

sought through a reading of the statutory language, supplemented by inferences drawn from other conditions, such as the degree of federal funding and the age of the program. As an example of the latter, 100% federal matching was generally presumed to indicate support, as it had in the 1969 study. Also the older a program, the more it was considered to be supportive rather than stimulative.

Fairly early in the examination of the 442 programs, ACIR staff concluded that the threefold 1969 classification was not adequate to represent the diversity and intermixing of purposes apparent in the current range of categorical grants. Thus a group of "national programs" was identified, consisting of grants that employed state and local governments essentially for the performance of national functions rather than to support or stimulate those governments in the conduct of their traditional functions. Another group, somewhat smaller, were programs that seemed aimed at building state-local specific or general management capacities. In addition to these the analysis identified a greater number of programs that seemed to reflect multiple legislative purposes than was the case in 1969.

The use of these and other refinements resulted in the identification of nearly 30 purposes or com-

binations of purposes. This number was subsequently reduced by combining some classes that embraced a few grants or in which the differences in definition seemed marginal. The classes of purpose finally used, singly or in combination, are those listed in *Tables IV-4 and IV-8*. These categories are as follows.

SUPPORT

A grant is supportive if a cut in federal aid is unlikely to weaken support for the aided activity from state and local funds. The smaller the federal contribution is relative to total program expenditure, and the older the program, the more likely the grant is to be supportive.

STIMULATIVE

A grant is stimulative if in its absence the state or local government would have inadequate incentive to perform the aided activity, or if reduction of the amount of federal aid would result in less effort from the recipient's own funds. The newer the activity is and the more narrow, or specific, is the category of aid, the more likely the grant is to be stimulative. The basic stimulative grants are tabbed "(operations)" to distinguish them from other sub-categories of this type of grant. These include:

- **Stimulative (research).** Most research grants are considered as stimulative, although some do have "national program" overtones (see below). The exceptions are a few grants for general research in established research institutions, such as agricultural research stations, that are classified as "support grants."
- **Stimulative (demonstration).** These are grants meant to stimulate potential recipients to propose innovations for demonstration.
- **Stimulative (facilities construction).** Grants for construction, particularly of facilities for new programs (e.g., community mental health centers).

CAPACITY BUILDING

Capacity-building grants are designed to improve general government planning, management, personnel, and evaluation capacity usually (but not always)

in specific program areas, or to upgrade an input of some service delivery agency. Grants for initial staffing of new facilities, inservice training, planning, and support for bodies such as advisory councils are included in this category. Grants for support of direct service or general operating expenses are not included. Some grants may be a subset of the stimulative category, when they become "stimulative (capacity building)."

TRAINING

Training grants are fellowships and traineeships. They are distinguished from capacity-building grants for inservice training by their emphasis on long-term, as opposed to short-term, training and their use of institutions of higher education. Training carried on by service delivery organizations and government agencies for their own employees is not included. Because of their relationship to national manpower goals, these grants could have been included in the national program category.

COMPLEMENTARY GRANTS

Complementary grants are supplementals (most common in regional development) whose purpose and other characteristics cannot be considered apart from other grants. Some discretionary grants, which are clustered around block grants, also fall into this category.

NATIONAL PROGRAMS

These grants are given to states and localities to compensate administering and supervising essentially national programs and in which states have very little policy discretion. Included are various manpower programs, disaster assistance, housing, civil defense, airport development, small business assistance, emergency school aid, and flood and watershed protection. Programs of aid to individuals typically fall in this category. Programs such as disaster assistance and emergency school aid are very much like support programs, but are included here because of their nonroutine character.

Identifying Congressional purpose in the absence of a clear record obviously is presumptuous and subject to challenge. Because the record is unclear by varying degrees for such a large number of the existing grant programs, this ACIR staff classi-

fication cannot be offered as anything more than a conscientious effort, using available data, to arrive at a roughly accurate profile of Congressional in-

tent or emphasis. It is believed that with this limitation recognized, the classification can be useful for drawing certain policy inferences.

FOOTNOTES

¹P.L. 93-203, Sec. 304(a)(3).

²*Federal Register*, June 5, 1975, pp. 24346-8.

³P.L. 93-380, Sec. 509(a)(2).

⁴P.L. 93-380.

⁵Office of Management and Budget, *Preparation and Submission of Budget Estimates*, Circular No. A-11, Revised, July 19, 1976. See *Part I* of this volume where the OMB definition is quoted in full.

⁶P.L. 93-618, Sec. 241(a).

⁷16 U.S.C. 1223. Other "reverse grant" programs similar to this are as follows: Halogeton Glomeratus Control Program (7 U.S.C. 1651, 1654); Cooperative Forest Insect and Disease Control: Surveys (16 U.S.C. 594-2); White-Pine Blister Rust Control:

Contributions by Non-Federal Agencies (16 U.S.C. 594a); Propagation of Disease Resistant Oysters: Cost Sharing for Acquisition of Brood Stock (16 U.S.C. 760j); Control or Extinguishment of Fires in Inactive Coal Mines (30 U.S.C. 555b); Shore Protection: Cooperative Investigations and Surveys (33 U.S.C. 426); Shoreline Restoration and Protection (33 U.S.C. 426e, 426g); Control of Aquatic Plant Growths (33 U.S.C. 610); Flood Protection Projects: Nonstructural Alternatives (33 U.S.C. 701b-11); Water Pollution Prevention and Control: Pollution Control in the Great Lakes (33 U.S.C. 1258); Shoreline Erosion Control Projects (42 U.S.C. 1962d-5 *Note*); Topographic Mapping or Water Resources Investigations (43 U.S.C. 50).

⁸Subcommittee on Intergovernmental Relations, *Federal Programs of Grants-in-Aid to State and Local Governments*, U.S. Congress, Senate, 91st Cong., 1st Sess., Committee Print, Sept. 22, 1969.

Table IV-A1
Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
 (Public Agencies Other Than Higher Education)

	Flat grant, allocation exceptions	Population			Personal income	Students	Expenditure or program level	Other	Allocation formula not in legislation	Project grant subject to formula distribution
		Total	Schoolage children	Other groups						
051—Department of Defense—Military:										
Civil Defense:										
Contributions to States for Personnel and Administrative Expenses ^c	XS	X		XO			XE		X	
Shelters and Other Protective Facilities				XO						X
301—Water Resources and Power:										
Water and Related Land Resources Planning: Basic Grants to States for Comprehensive Planning		X			X			XL, XO	X	
Water Resources Research: Assistance to State Institutes	XS, XM									X
302—Conservation and Land Management:										
Coastal Zone Management: Development of Management Program	XS, XM			XO				XO	X	
Cooperative Forest Fire Control							XE	XO	X	
Forest Management, Production, and Protection: Cooperation With States							XE	XO	X	
Youth Conservation Corps: Projects for Employment of Youth on Non-Federal Public Lands	XB	X						XO	X	X
303—Recreational Resources:										
Fish Restoration and Management Historic Preservation: ^e	XB, XM							XO		d
Comprehensive Planning and Survey Grants	XS, XM						XP, XE		X	X
Grants to States for Projects	XS, XM						XP, XE		X	X
Hunter Safety Program	XB, XM	X								d
Outdoor Recreation: Grants to States for Planning, Acquiring, and Developing Land and Water Areas and Facilities	XS, XM	X		XO					X	X
Wildlife Restoration	XB, XM							XL, XO		d
304—Pollution Control and Abatement:										
Air Pollution Prevention and Control: Planning and Program Operation		X			X			XO	X	X
Water Pollution Prevention and Control: Pollution Control Programs								XO	X	X
Waste Treatment Works Construction	XP						XE			X

(Continued)

Table IV-A1
Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
(Public Agencies Other Than Higher Education)

	Flat grant, allocation exceptions	Population			Personal income	Students	Expenditure or program level	Other	Allocation formula not in legislation	Project grant subject to formula distribution
		Total	Schoolage children	Other groups						
306—Other Natural Resources:										
Commercial Fisheries: Research and Development Basic Grants	XB, XM						XO		X	
352—Agricultural Research and Services:										
Agricultural Experiment Stations:										
Support Grants	XS			XR, XF					f	
Cooperative Agricultural Extension Work Extension Services in Disadvantaged Agricultural Areas With Special Needs	XS			XR, XF						
Promoting Research in Forestry	XM					XP		X	X	
Rural Development and Small Farm Research						XE	XO	X	f	
Research	XS			XR, XF						
404—Ground Transportation:										
Education and Training Programs for Highway Personnel ^g				XR, XU			XL, XO			
Highway Beautification: Landscaping and Scenic Enhancement ^h									f	
Highway Safety:										
Basic Grants	XB	X					XO			
Eliminating Hazards of Railway-Highway Crossings	XB			XR, XU			XL, XO			
Incentive Grants:										
Seatbelt Law ^h								X	X	
Reduced Traffic Fatalities ^h								X	X	
Program for the Elimination of Roadside Obstacles	XB	X					XO			
Projects for High-Hazard Locations	XB	X					XO			
Safer Roads Demonstration Program	XB	X					XO			
Special Bridge Replacement Program							XO	X	X	
Highways:										
Federal-Aid Primary and Secondary Systems Extensions Within Urban Areas				XU					f	
Federal-Aid Primary System in Rural Areas	XB		XR				XL, XO			
Federal-Aid Secondary System	XB		XR				XL, XO		f	
Federal-Aid Urban Systems	XB			XU					f	
Forest Highways							XO	X	f	
Interstate System						XE			f	

(Continued)

Table IV-A1
Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
(Public Agencies Other Than Higher Education)

	Flat grant, allocation exceptions	Population							Allocation formula not in legislation	Project grant subject to formula distribution
		Total	Schoolage children	Other groups	Personal income	Students	Expenditure or program level	Other		
501—Elementary, Secondary, and Vocational Education (Cont'd):										
Education of the Handicapped:										
Basic Grants ⁱ	XP			XO				XO		
Educationally Deprived Children:										
Basic Grants to Local Educational Agencies	XP		XO		XO			XE	XO	
Special Grants	XM		XO		XO			XE	XO	
Special Incentive Grants	XM		XO		X, XO			XE	XO	
State Operated Programs:										
Handicapped Children	XP					XO		XE		
Migratory Children	XP		XO					XE		
Neglected or Delinquent Children	XP					XO		XE		
Emergency School Aid:										
Basic Grants to Local Educational Agencies	XS, XB		XM						X	
Pilot Programs or Projects	XS		XM						X	
Special Program and Project Grants to Nonprofit Organizations	XS, XB		XM						X	
Federally Affected Areas:										
Payments to Compensate for Federally Owned Property								XO		
Federally Affected Public Schools:										
Construction Aid Based on Increases in Federal Activities						XO		XE		
Current Expense Aid Payments to Local Agencies						XO		XE		
Payments Due to Sudden and Substantial Increases in Attendance						XO		XE	XO	
Head Start Program: Program Grants				XO	XO			XO	X	
Indian Education: Grants to Local Educational Agencies						XO		XE		
Strengthening State and Local Educational Agencies:										
Basic Grants to States ^j	XS					XO				
Comprehensive Educational Planning and Evaluation ^j	XS	X								

(Continued)

Table IV-A1

Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
 (Public Agencies Other Than Higher Education)

	Flat grant, allocation exceptions	Population			Personal income	Students	Expenditure or program level	Other	Allocation formula not in legislation	Project grant subject to formula distribution
		Total	Schoolage children	Other groups						
501—Elementary, Secondary, and Vocational Education (Cont'd):										
Supplementary Education Centers and Services; Guidance, Counseling, and Testing ⁱ	XS	X	X							
Vocational Education:										
Consumer and Homemaking Education	XB			XO	X					k
Cooperative Programs	XS			XO						
Exemplary Programs and Projects: ^e										
Basic Grants	XS			XO						
Discretionary Grants	XS			XO						X
Research and Training in Vocational Education: ^e										k
Basic Grants	XB			XO	X					
Discretionary Grants	XB			XO	X					X
Special Programs for the Disadvantaged	XB			XO	X					
State Advisory Councils ^h	XB, XM			XO	X					
State Vocational Education Programs	XB			XO	X					
Work-Study Programs for Vocational Education Students										XO
502—Higher Education:										
Colleges of Agriculture and Mechanic Arts (Land-Grant Colleges)	XS	X								
Community Service and Continuing Education Programs: Basic Grants	XS	X								
State Postsecondary Education Commissions: Comprehensive Statewide Planning	XS,XP			XO				X		
Student Assistance: Aid for Certain Students Attending Institutions of Higher Education: Grants to States for State Students Incentives										XH
503—Research and General Education Aids:										
Promotion of the Arts: Basic Grants to States	XS									

(Continued)

Table IV-A/
Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
 (Public Agencies Other Than Higher Education)

	Flat grant, allocation exceptions	Population			Personal income	Students	Expenditure or program level	Other	Allocation formula not in legislation	Project grant subject to formula distribution
		Total	Schoolage children	Other groups						
503—Research and General Education Aids (Cont'd):										
Public Library Programs:										
Construction	XS	X								
Interlibrary Cooperation	XS	X								
Library Services	XS	X								
School Library Resources, Textbooks and Other Instructional Materials ^j						XE				
Strengthening Instruction in Science, Mathematics, Languages, and Other Critical Subjects:										
Equipment and Minor Remodeling ^j					X					
Expansion or Improvement of Supervisory Services and Administration ^j							X			
504—Training and Employment:										
Comprehensive Manpower Services:										
Special Grants to State Prime Sponsors								XO		XO
Staffing and Servicing State Manpower Service Councils								XO		XO
Supplemental Vocational Education Assistance								XO		XO
Emergency Public Service Jobs Programs										XO
Grants to States for Unemployment Compensation Administration										XO
Manpower Services:										
Migrant and Seasonal Farmworker Manpower Program										
Youth Programs and Other Special Programs:										
Summer Youth Program										
Older Americans Programs:										
Community Service Employment	XP					XO				XO
Public Service Employment Program	XB					XO				XO
Other Special Programs:										
Migrant and Seasonal Farmworker Manpower Program	XB, XP									
Youth Programs and Other Special Programs:										
Summer Youth Program										
Older Americans Programs:										
Community Service Employment										
Public Service Employment Program										

(Continued)

Table IV-A1
Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
 (Public Agencies Other Than Higher Education)

	Flat grant, allocation exceptions	Population			Personal income	Students	Expenditure or program level	Other	Allocation formula not in legislation	Project grant subject to formula distribution
		Total	Schoolage children	Other groups						
504—Training and Employment (Cont'd):										
Work Incentive Program for Recipients of Aid to Families With Dependent Children:										
Basic Grants for Employment Purposes						XE*	XO			
Supportive Services										
505—Other Labor Services:										
Farm Labor Contractor Registration							XO	X		X
506—Social Services:										
Child Abuse and Neglect Prevention and Treatment: Assistance to States for Developing, Strengthening and Conducting Programs	XS			XO				X		X
Child-Welfare Services: Basic Grants to States	XS			XO	X					
Developmental Disabilities: Basic Grants	XB	X			X	XP		X		
Older Americans Programs:										
Area Planning and Social Service Programs	XB, XP			XO						
Nutrition Program for the Elderly	XB			XO						
Planning, Coordination, Evaluation, and Administration of State Plan	XB			XO						
Public Assistance: State and Local Personnel Training							XE*			
Social Services: Personnel Training							XE			
Vocational Rehabilitation and Other Rehabilitation Services:										
Vocational Rehabilitation Services:										
Basic Grants to States	XB	X			X					
Innovation and Expansion Grants	XB	X								m
Services for Social Security Disability Beneficiaries	XB						XO	X		
551—Health Care Services:										
Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation: Basic Grants	XB	X			X			X		

(Continued)

Table IV-A1
Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
(Public Agencies Other Than Higher Education)

	Flat grant, allocation exceptions	Population			Personal income	Students	Expenditure or program level	Other	Allocation formula not in legislation	Project grant subject to formula distribution
		Total	Schoolage children	Other groups						
551—Health Care Services (Cont'd):										
Maternal and Child Health and Crippled Children's Services:										
Crippled Children's Services: Basic Grants	XS			XO	X				X ⁿ	
Maternal and Child Health, Services: Basic Grants	XS				X		XO		o	
Medical Assistance (Medicaid)					X		XE*			
553—Prevention and Control of Health Problems:										
Drug Abuse Prevention and Treatment: Basic Grants	XB	X			X				X	
554—Health Planning and Construction:										
Community Mental Health Centers: Construction	XB	X			X				X	X
State Review of Health Facilities Capital Expenditures							XE		X	
604—Public Assistance and Other Income Supplements:										
Aid to Families With Dependent Children:										
Grants for Payments to Aid Recipients					X		XE, XP*			
Grants for Program Administration							XE*			
Child Nutrition Programs:										
Commodity Distribution Differential Payments							XP	XO		
Non-Food Assistance						XO	XP			
School Breakfast Program	XP						XP*	XO		
School-Lunch Food Assistance Programs	XP						XP*	XO		
Special Assistance for Free and Reduced-Price School Lunches							XP*	XO		
Special Food Service for Children in Service Institutions	XB			XO	XO					
Special Milk Program							XP	XO	X	
State Administrative Expenses ^c				XO	XO			XO	X	
Food Stamp Program: Administrative Costs							XE*			

(Continued)

Table IV-A1
Factors Used to Allocate Federal Formula-Based Categorical Grants, FY 1975^{a,b}
(Public Agencies Other Than Higher Education)

Other:

- XR— Rural population.
- XF— Farm population.
- XU— Urban or urbanized population.
- XO— Any other population group.

Personal income:

- X— Per capita or total (financial need).
- XO— Any income factor is taken into account for the group indicated under another category.

Students:

- XE— All elementary and secondary education students.
- XH— All higher education students.
- XO— Other students.

Expenditure or program level:

- XE— Expenditure level.
- XP— Program (or participants) level.

Other:

- XL— Land area.
- XO— Any other factor not separately identified.

^bIncludes formula grants to state and local governments as well as those project grants for which distribution formulas determine the amounts available for expenditure or obligation within a state area, which were operating in FY 1975.

^cAllocations derived by formula are reviewed and may be modified.

^dDetailed statement for each project or state plan option.

^eA single allotment is made for the grants listed under this heading.

^fMay be expended for previously approved projects only.

^gAmount available is derived from allocations made for various other programs; factors indicated are those used for such other allocations.

^hAmount is equal to a fixed percentage of an allotment under another program.

ⁱFor fiscal year 1975 only the formula is stated as an entitlement formula.

^jProgram was operational in fiscal year 1975 but no appropriations are authorized when funds are available under the applicable consolidated program authorized in 1974.

^kOne-half of the allotment is for discretionary project grants.

^lStatutory minimum not applicable due to reduced scope of the program.

^mIt may be required that a portion of the allotment (up to 50%) be expended on projects which have first been approved by the Secretary.

ⁿAlthough legislation provides factor to be used, another factor is used due to lack of data as specified.

^oOne-half of the amount available for allotment is distributed as provided in legislation; remaining distribution is determined by the Secretary.

*Open-end reimbursement program.

Source: ACIR staff tabulations.

Table IV-A2

116 Project Grant Programs (Nonformula) Not Requiring Recipient Cost Participation, By Budget Subfunction, FY 1975

Budget Subfunction and Program	Program Includes Eligible Recipients Other Than State-Local
301—Water Resources and Power:	
Assistance to State Institutes	No
Special Projects	Yes
304—Pollution Control and Abatement:	
Water Pollution Prevention and Control:	
Areawide Waste Treatment Management	
Planning Grants ^a	No
306—Other Natural Resources:	
Commercial Fisheries: Disaster Assistance	No
352—Agricultural Research and Services:	
Agricultural Experiment Stations: Cooperative Research	No
Agricultural Research Grants	Yes
401—Mortgage Credit and Thrift Insurance:	
Self-Help Housing Programs	Yes
404—Ground Transportation:	
Highway Safety:	
Pavement Marking Demonstration Program	No
Research and Development	Yes
Urban Area Traffic Operations Improvement Programs (TOPICS)	No
451—Community Development:	
Community Action: Special Programs and Assistance:	
Community Food and Nutrition	Yes
Community Development:	
Discretionary Grants	No
Grants for Urgent Community Development Needs	No
Preparation of Comprehensive Plans for Rural Water and Waste Disposal Systems	Yes
452—Area and Regional Development:	
Appalachian Regional Development:	
Low- and Moderate-Income Housing Projects: Site Development and Off-Site Improvements	Yes
Public Works and Development Facilities:	
Health Projects ^b	Yes
Regional Action Planning Commissions:	
Grants for Studies, Planning, and Training Programs	No
453—Disaster Relief and Insurance:	
Disaster Assistance:	
Contributions for Performance of Essential Emergency Services	No
Contributions to Repair, Reconstruct, or Replace Public Facilities	No
Crisis Counseling Assistance and Training	No
Debris Removal	No
Development of State Plans, Programs and Capabilities	No

(continued)

Table IV-A2

116 Project Grant Programs (Nonformula) Not Requiring Recipient Cost Participation, By Budget Subfunction, FY 1975

Budget Subfunction and Program	Program Includes Eligible Recipients Other Than State-Local
453—Disaster Relief and Insurance: (Cont'd)	
Fire Suppression Grants	No
Removal of Damaged Timber	No
501—Elementary, Secondary, and Vocational Education:	
Adult Education:	
Improvement of Educational Opportunities for Adult Indians:	
Dissemination of Information; Program Evaluation	Yes
Planning Pilot and Demonstration Projects	Yes
Assistance to Local Educational Agencies in Cases of Certain Disasters	No
Bilingual Education:	
Establishment, Operation, and Improvement of Programs	No ^c
Fellowships	Yes
Technical Assistance Grants	No
Training	Yes
Dealing With Programs Related to Desegregation of Public Education:	
Grants for In-Service Training and Employment of Specialists	No
Education of the Handicapped:	
Captioned Films and Educational Media	Yes
Centers and Services to Meet the Special Needs of the Handicapped:	
Centers and Services for Deaf-Blind Children*	Yes
Innovative Programs	Yes
Regional Resource Centers*	Yes
Special Programs for Children With Specific Learning Disabilities:	
Research, Training and Model Centers	Yes
Training Personnel for the Education of the Handicapped:	
Grants to State Educational Agencies	No
Improving Recruiting of Educational Personnel and Dissemination of Educational Opportunities Information	Yes
Education Professions Development:	
Attracting Qualified Persons to the Field of Education	Yes
Improving Training Opportunities for Personnel Serving in Programs Other Than Higher Education:	
Advanced Training and Retraining	Yes
Bilingual Education Training Programs	Yes
Teachers for Indian Children	Yes
Urban/Rural School Development Program	No
Training and Development Programs for Vocational Educational Personnel: Exchange Programs, Institutes, and In-Service Education	No
Educationally Deprived Children: State Administration	No
Emergency School Aid:	
Educational Television	Yes

(continued)

Table IV-A2

116 Project Grant Programs (Nonformula) Not Requiring Recipient Cost Participation, By Budget Subfunction, FY 1975

Budget Subfunction and Program	Program Includes Eligible Recipients Other Than State-Local
501—Elementary, Secondary, and Vocational Education: (Cont'd)	
Evaluations	Yes
Providing Equal Educational Opportunity for Bilingual Minority Group Children	No
Special Programs and Projects	No
Environmental Education: Small Grants for Special Projects	Yes
Exemplary Projects and Studies in Education (Right to Read)	Yes
Federally Affected Public Schools: Other Construction Assistance ^d	No
Indian Education: Special Programs and Projects to Improve Educational Opportunities for Indians	Yes
National Reading Improvement Program:	
Reading Academies	Yes
Reading Training on Public Television	Yes
School Construction Assistance in Cases of Disasters	No
School Nutrition and Health Services for Children From Low-Income Families: Demonstration Projects ^e	Yes
Vocational Education:	
Bilingual Vocational Training	Yes
Curriculum Development in Vocational and Technical Education	No
502—Higher Education:	
Ethnic Heritage Program	Yes
State Postsecondary Education Commissions:	
Payment for Administrative Expenses	No
Student Assistance: Aid for Certain Students Attending Institutions of Higher Education:	
Special Programs for Students from Disadvantaged Backgrounds:	
Talent Search	Yes
Upward Bound	Yes
503—Research and General Education Aids:	
Career Education: Program Development and Demonstrations	Yes
College Library Training and Research:	
Research and Demonstrations Relating to Libraries and the Training of Library Personnel	Yes
National Institute of Education Research and Training Grants	Yes
Planning and Evaluation of Federal Educational Activities	Yes
504—Training and Employment:	
Job Corps Programs: State Operated Projects*	No
Manpower Services: Additional Services for Special Target Groups	No
State Employment Offices: Administrative Expenses	No
506—Social Services:	
Child Abuse and Neglect Prevention and Treatment: Demonstration Programs and Projects	Yes
(continued)	

Table IV-A2

116 Project Grant Programs (Nonformula) Not requiring Recipient Cost Participation, By Budget Subfunction, FY 1975

Budget Subfunction and Program	Program Includes Eligible Recipients Other Than State-Local
506—Social Services: (Cont'd)	
Juvenile Delinquency Prevention and Control:	
Demonstrations in Youth Development	Yes
Older Americans:	
Attracting Qualified Persons to the Field of Aging	Yes
Model Projects	Yes
Training Programs for Personnel in Field of Aging	Yes
Vocational Rehabilitation: Payments to States for Services for Blind and Disabled Individuals Receiving Supplemental Security Income	No
Vocational Rehabilitation and Other Rehabilitation Services: Vocational Rehabilitation Services: Client Assistance Pilot Projects	No
551—Health Care Services:	
Alcohol Abuse and Alcoholism Prevention Treatment and Rehabilitation:	
Uniform Alcoholism and Intoxication Treatment Act: Special Grants	No
Emergency Medical Services: Feasibility Studies and Planning	Yes
Maternal and Child Health and Crippled Children Services:	
Crippled Children's Special Projects	Yes
Maternal and Child Health Special Projects	Yes
Special Projects for Crippled Children Who are Mentally Retarded	Yes
Special Projects for Mentally Retarded Children	Yes
Narcotic Addiction, Drug Abuse, and Drug Dependence Prevention and Rehabilitation:	
Drug Abuse Education Programs	Yes
Training, Surveys, and Special Projects	Yes
Population Research and Voluntary Family Planning: Training Personnel to Provide Family Planning Services ^f	Yes
Sudden Infant Death Syndrome: Collection and Analysis of Information and Information and Counseling to Affected Families	Yes
552—Health Research and Education:	
Alcohol Abuse and Alcoholism Prevention, Treatment, and Rehabilitation: Training	Yes
Allied Health Professions Personnel Training:	
Encouraging Entrance into Allied Health Fields	Yes
Improving the Quality of Training Centers: Special Projects for Experimentation, Demonstration, and Institutional Improvement	Yes
Traineeships for Advanced Training of Personnel	Yes
Diagnosis, Prevention, and Treatment of Heart and Vascular, Lung, and Blood Diseases: National Research and Demonstration Centers*	Yes
Education, Research, Training, and Demonstrations in Heart Disease, Cancer, Stroke, and Related Diseases: Regional Medical Programs* ⁹	Yes
Health Professions Personnel Training: Health Manpower Education Initiative Awards: Recruiting Individuals for Shortage Areas and the Socioeconomically Disadvantaged	Yes

(continued)

Table IV-A2
**116 Project Grant Programs (Nonformula) Not Requiring Recipient Cost
 Participation, By Budget Subfunction, FY 1975**

Budget Subfunction and Program	Program Includes Eligible Recipients Other Than State-Local
552—Health Research and Education: (Cont'd)	
Mental Health:	
Clinical Training and Instruction and Traineeships	Yes
Hospital Staff Development Grants	No
Narcotic Addiction, Drug Abuse, and Drug Dependence Prevention and Rehabilitation: Training	Yes
553—Prevention and Control of Health Problems:	
Coal Mine Health and Safety:	
Research and Demonstrations	Yes
Training and Education	Yes
Respiratory and Pulmonary Impairments in Miners: Providing Clinical Facilities for Examination and Treatment	Yes
Drug Abuse Prevention and Treatment: Special Project Grants	Yes
Lead-Based Paint Poisoning Prevention: Detection and Treatment of Lead- Based Paint Poisoning: Centralized Laboratory Facilities	No
604—Public Assistance and Other Income Supplements:	
Child Nutrition Programs: Nutritional Training and Education	No
Food Distribution and Donation Programs ^h	No
Lower-Income Housing Assistance	No
Low-Income Housing Projects:	
Annual Contributions for Development and Acquisition	No
Annual Contributions for Operation	No
Provision of Services for Refugees	No
Public Assistance: Special Demonstration Project Supplemental Payments	No
Special Supplemental Food Program	No
754—Law Enforcement Assistance:	
Juvenile Justice and Delinquency Prevention:	
Developing Comprehensive Federal Policies and Objectives	Yes
Law Enforcement and Criminal Justice:	
Grants for Providing Technical Assistance	Yes
Research, Demonstrations, or Special Projects	Yes
Training	Yes
Training Programs for Prosecuting Attorneys	Yes

Note: In some cases the legislation states that the federal share may be part or all of the cost, and when supplementary material has indicated that there are no matching requirements they are included here and noted with an*.

^aThrough fiscal year 1975.

^bFirst year of operations.

^cHigher education institutions but only in combination with governmental units.

^dMatching at the discretion of the Secretary.

^eNot required, but matching is encouraged.

^fLegislation indicates matching is as determined by the Secretary, but the *Catalog of Federal Domestic Assistance* shows no matching.

^gMatching required for construction.

^hRecipients expected to bear some of the costs.

ⁱFor nonconstruction, at the discretion of the Administrator.

Source: ACIR staff tabulation.

Chapter V

Cost-Sharing Arrangements: Their Significance and Impact

The federal character of the United States permits public services to vary from place to place, but it does not preclude the national government from taking steps to assure the widespread and, at times, uniform provision of certain services. As Selma J. Mushkin and John F. Cotton point out, however:

The meeting of public demands for new public services or better methods of producing them has required choices between direct nationally administered programs and programs administered by state or community. Those who decry the grant structure often fail to consider that Congress, in responding to public needs, has mainly two viable options: (1) direct national measures, or (2) some form of federal aid to states and cities. For the most part, Congress has opted for federal aids rather than direct national action for new public services.¹

In exercising the federal aid option, Congress has a wide choice of administrative approaches and cost-sharing principles. For example it must decide (a) who shall administer the activity and bear the cost, (b) how long the program should operate before review and renewal, (c) what program and financial conditions must be met by the recipient governments, and (d) what mix of federal-nonfederal financing is appropriate.

This chapter is concerned with cost-sharing principles in federal intergovernmental grant pro-

grams and with the impact of these arrangements on state-local efforts. Discussion is made of matching requirements and federal percentage reimbursement provisions, which are the best known means of determining the cost-sharing mix in federally aided programs. Attention is likewise paid to maintenance-of-effort and nonsubstitution requirements and the manner in which these interact with matching, as well as allocation formulas that in part reflect recipient effort.

After outlining the types of purposes for which grants-in-aid can be used and the appropriateness of matching for these purposes, the chapter surveys the historical development of cost-sharing arrangements in federal grants and describes the cost-sharing arrangements in the present grant system. Finally the relation between matching ratios and stimulation of state-local expenditures is considered.

COST SHARING AND FEDERAL GRANTS

Federal grants-in-aid are one means for federal, state, and local sharing of the costs of government activity. Cost-sharing arrangements not only affect the division of financial responsibilities between levels of government, but also influence the relative fiscal condition of various state and local governments through interaction with allocational formulas. This latter point gained recognition as early as the 1930s, when Congress became concerned with the differential demands placed on states of varying fiscal capacities because of allocational and cost-sharing arrangements. A 1947 Social Security

Administration report emphasized this point and argued that allocation formulas cannot be considered apart from matching formulas.

The total level of activity affected by the operation of both formulas together is the significant matter. . . .

For example if a state program is to be financed fully by the federal government, the equalization principle is achieved in practice if aid is distributed solely in accordance with the need for the services. If federal aid is to cover only part of the cost of the state program but there is no requirement as to the amount of the state-local expenditures, the allocation formula should contain both the need and ability factors within it if any degree of equalization in the program level and tax burden is to be achieved. In the third situation, when state matching also is required, the combined effect of both the allocation and matching formulas must be considered.²

Other than matching requirements the most common fiscal conditions attached to grants, and related to recipient effort, are maintenance-of-effort requirements and some features of allocation formulas (treated in *Chapter VI*). An unusual variation is the comparability requirement in the *Elementary and Secondary Education Act* Title I program. To receive federal aid, school districts must guarantee that local fiscal support for targeted schools with disadvantaged children is comparable to that for nontargeted schools.

GRANT PURPOSES AND COST SHARING

Categorical grants-in-aid have been used, sought, and justified for essentially four purposes: programmatic, fiscal, economic, and administrative.

Programming Purposes

Any discussion of program purposes must, at the outset, recognize the political dynamics of a fragmented federal system.³ Organized interests sometimes are able to achieve their objectives best at the federal level and other times in individual states. Policy innovations spread unevenly among the states,

and the flow of initiative may come either from the states to the national government or from the national government outward. Such efforts may include stimulation of new programs, program equalization, support of minimum standards, or demonstration and evaluation. Each of these, along with its relevance to matching, merits brief analysis.

STIMULATION OF NEW PROGRAMS AND EFFORT

Grants-in-aid often are viewed as a means of securing program activities deemed in the national interest. James L. Sundquist argues that the dramatic rise in federal grant programs during the 1960s reflected a shift in emphasis toward achieving goals of high national priority.⁴ Many, after all, were project grants with low or no matching requirements serving as inducements to participation. According to this argument earlier grants typically were supportive of state and local programs, and they ordinarily required dollar-for-dollar matching of federal aid. Yet many grants in the first few decades of this century were, in fact, efforts to spur nationwide adoption of new programs. However all earlier innovations were not necessarily of federal origin.

The pattern of a federal stimulus of scattered innovation in the states is well illustrated in the case of old-age assistance. Montana, Pennsylvania, and Nevada passed old-age pension laws in 1923, and by 1934, 28 states and two territories had entered the field. The programs, however, were usually less than statewide in coverage, and eligibility standards, payments, and state financial participation varied widely. Demands for a more uniform national scheme led to a House-passed bill in 1934 that provided for federal grants for one-third of program cost. By the time the President's Committee on Economic Security made its report in 1935, a consensus developed around a grant-in-aid program that would build on the foundation provided by the several state programs. Some variation, beyond a minimum standard, was deemed desirable, and a conditional grant program was seen as the best means of attracting states into the proposed shared undertaking. The deteriorating fiscal status of the states was cited as justification for federal assumption of one-half of the national minimum; in addition, the larger grant was hoped to facilitate tighter federal controls.⁵

The emergence of matching grants for a cooperative federal-state employment service illus-

trates a somewhat different pattern. A federal employment service had been initiated during World War I, but because of Congressional opposition, the service shrank rapidly after the war. The states did very little to pick up the slack; by 1930, only 151 offices in 24 states existed. In 1931 President Herbert Hoover, preferring to extend skeletal federal service, vetoed a bill that would have created a cooperative federal-state service. But this federal expansion was badly handled and poorly coordinated with existing state efforts. The *Wagner-Peyser Act of 1933*, thus, was a response to the failure of a purely federal scheme.

A more recent example of "borrowing from the field" is found in the community action programs in the 1960s. Highly acclaimed programs in different parts of the country were adopted as models for nationwide emulation, and a grant program with a highly favorable cost-sharing arrangement was enacted to elicit a response.

Because the purposes for which categorical assistance can be expended by the recipient are limited, the grant, in effect, lowers the cost to the recipient for increasing output of the aided activity. A categorical grant with no matching requirement, particularly if the grant is of sufficient size to support the aided purpose, would be expected to generate the most widespread participation in the aided activity. Recent grant programs in support of community mental health centers and services to senior citizens initially have required either local matches or no match at all, but progressively higher matching requirements in subsequent years. The idea is to stimulate commitments for new programs by allowing the states to gradually ease into the new fiscal obligation.

Just what programs are in the national interest and should become national policy is an open-ended question. The particular cost-sharing arrangement that Congress settles on is one indication of how Congress, through political bargaining and compromise, resolves this issue. Presumably the lower the required level of nonfederal financial participation in a program, the closer that particular program is to the national interest.

The extent to which federal grants have been successful in stimulating state and local program effort is difficult to determine. Expenditure data suggest that, over time, states and localities have increased or changed their roles in areas such as mental health, transportation, and health planning after the enactment of federal grants and that

matching programs are a key variable in this development. A later section of this chapter explores this issue in detail.

EQUALIZATION OF PROGRAM LEVEL

National interest goals behind a grant may illustrate not only a desire to spur new activity in a program area, but also encouragement of a more equalized pattern of output of the aided activity among the states or localities. This goal can be pursued in several ways. One approach is to allocate categorical funds according to a formula that favors jurisdictions ranked high on some objective measure of need—for instance, hospital beds per thousand population. If the existing inequalities in service levels are believed to be a result of unequal financing capacities, the allocation formula may reward those with high levels of need, as indicated by low per capita income or some measure of tax capacity. Alternatively matching requirements can be adjusted so as to offer more favorable terms to those jurisdictions that are lagging behind, for whatever reason. Some federal grants-in-aid vary federal reimbursement rates according to per capita income or require smaller matching contributions from grant recipients in poverty areas.

If program-level equalization, and not just equalization of fiscal capacity, is the objective, the grant must be categorical. If the grant purposes are not limited, it will not have the intended effect of reducing the price, which encourages the provision of a particular public good or service. In addition if the recipient is not required to maintain its ongoing expenditure for the aided activity, no guarantee exists that the recipient's share for the aided activity will be increased in an amount equal to the grant size. Without a workable maintenance-of-effort requirement, the degree to which the grant will be additive to, and not substitutive of, recipient spending depends on the recipient's propensity to spend any of the grant on the aided activity as compared to any other activity. If recipients are able to substitute federal funds for own-source funds, equalization of program level may be jeopardized. Clearly not only the categorical nature of the program, but also the allocation formula, the nature of matching requirements, as well as maintenance-of-effort provisions are all critical variables for predicting the impact of a grant intended either to stimulate recipient activity or to make service levels more uniform.

SUPPORT OF MINIMUM STANDARDS

In many instances equalization of program level per se may not be deemed necessary, but a minimum level of service output or service availability in each jurisdiction may be deemed to be in the national interest. Close-end reimbursement grants or grants with "floors" or "ceilings" in the matching formula are possible approaches. After calculating the likely cost of obtaining the desired minimum in each state, Congress might choose to reimburse a given percentage, say 75%, of program costs. States could exceed the minimum match, but instead of paying only 25 cents of every dollar's worth of additional program activity, the state would bear the full cost. Again the reimbursement rate or the allocation formula could be adjusted to account for varying fiscal capacity among recipient governments.

The public assistance program comes close to this approach. The federal share is based on a state average monthly payment of \$32 per recipient. Federal funds pay five-sixths of the first \$18 and a lesser percentage beyond that point. At the state level school aid foundation plans sometimes take this approach.

Another approach is not to require nonfederal matching funds up to, perhaps, the first \$100,000 of a state's allowance. The federal government, in effect, guarantees whatever level of program activity that could be purchased with this minimum allotment. Additional federal dollars and, presumably, higher levels of program activity are conditioned by recipient financial participation in some portion of the program costs.

DEMONSTRATION AND EVALUATION

Experimentation with promising but untested innovations may be considered in the national interest. Because of either the inherent risk involved or prohibitive investment costs, state and local governments may be unwilling to undertake such endeavors. And because of the possible nationwide benefit from experimentation and the reluctance of subnational governments to pay for programs of this type whose benefits spill over, Congress may deem it practicable to offer limited funds at little cost to the states. Such demonstration grants, with low or no matching requirements, are common in many fields, especially education. Nearly every major piece of omnibus grant legislation authorizes a few grants of this type.

As a result of demonstration grant programs, the lessons learned can be transferred to other parts of the country or made a basis of federal programs, although administrators frequently are hesitant to assure the judgmental responsibility implicit in this evaluation. Demonstration grants may have another purpose—enticing a few potential recipients to try a new program. A limited fund of low- or no-match project grants is a suitable tool for this purpose. Grants of this sort may be a preliminary to program stimulation grants.

FISCAL PURPOSES

Fiscal purpose grants are of two general types—revenue support and fiscal capacity equalization. In both cases the purpose may be general (unconditional, e.g., revenue sharing) or specific.

EQUALIZATION OF FISCAL CAPACITY

The most direct method of promoting equalization of fiscal capacity is a tax sharing or revenue sharing grant whose allocation favors low-capacity jurisdictions. Equalization also can be promoted through block or categorical grants by varying matching requirements to supplement whatever equalizing tendencies exist in the allocational formula. By offering more favorable matching or cost-sharing terms to jurisdictions with low fiscal capacity, their effective price for the aided activity or group of activities is reduced relative to the price for high-capacity jurisdictions. About 19 formula categoricals distribute funds partially according to some measure of per capita personal income. Some programs, such as initial staffing grants for community mental health centers, have lower matching requirements for poverty areas. Other programs, e.g., Public Assistance and Medicaid, have reimbursement rates that vary with state per capita income.

REVENUE SUPPORT

When a grant's primary purpose is support, matching or cost-sharing provisions are of much less significance. The concern is with the financial ability of recipients to undertake government activity, and not with programs per se. Cost-sharing and matching requirements make sense only in the context of some fairly specific program or set of programs with clearly defined content; hence their heavy use in categorical grants. A no-match grant of

general assistance generates no specific program price effects, because its impact depends primarily on the recipient government's propensity for public spending (taxing) versus private spending. A no-match block grant does have some price effect, however, because its scope is less than the totality of government activity. Yet in the absence of a maintenance-of-effort requirement, the block grant can be expected to have similar results as general revenue sharing (GRS), i.e., the block grant funds can be used to free up the recipient's own funds for other purposes. In the case of GRS, a requirement that the recipient government maintain its general tax effort (i.e., not use the federal aid to lower taxes) produces a crude price effect in favor of government spending versus private spending. The maintenance-of-effort requirement, therefore, has the same effect somewhat as a matching requirement.

ECONOMIC PURPOSES

Economic analysis suggests that when the benefits of certain expenditures cannot be kept from spilling over to those who pay no share of the costs, either the benefits must be internalized to those who pay the cost or some means must be established to compel "free riders" to pay a fair share. As long as these benefit externalities persist, theory predicts that too little of the particular good or service will be produced.

A common public finance rationale for the use of grants-in-aid is to improve public resource allocation. Grants are "appropriate when a program is of concern to more than one level of government, or when there is a conflict between efficient production and governmental responsiveness."⁶ One analyst illustrates the principle with the example of a federal grant used to elicit a level of support from a city to ensure an expenditure for its zoo that would satisfy the demand on the locality by noncity residents. A conditional open-end percentage reimbursement grant would reduce the city's effective cost of any given servicing level, but an unconditional no-match grant, with no maintenance-of-effort requirement, would simply serve as an income transfer, increasing the funds available for expenditures on the zoo and all other activities. Assuming the "ideal" cost-sharing principle could be determined, the matching or open-end percentage reimbursement grant would attain the socially desired level of zoo capacity at less cost to society than

would the no-match grant. A close-end matching grant, on the other hand, would be equivalent to open-end grants up to the ceiling, but beyond that point it denies the achievement of allocative efficiency.⁷ Political considerations may necessitate a close-end grant to limit the federal commitment, although theoretically this should not be necessary. When it does become necessary, it may indicate that the rate of reimbursement was too high, i.e., the grant may have made the effective price facing the grant recipient too low, thus inducing the recipient to spend more than Congress determines is socially desirable.

An alternative is an open-end grant with less favorable matching terms.

This is desirable because as programs are expanded, external benefits presumably continue as long as internal benefits continue, though not necessarily in some constant relation to each other. If that relation were correctly reflected in the matching requirements of the grant program, self-interest should keep the grantee from overexpanding its activities, since with each program expansion it would continue to pay the full cost of its own benefits.⁸

This situation could be one interpretation of what happened over the period 1967-72 with open-end grants for social services.⁹ A favorable 75% federal reimbursement rate, combined with the ability of some states to manipulate loose definitions of eligible costs, resulted in spiraling federal obligations. By 1972 pressure on the federal treasury forced a \$2.5 billion ceiling on the total federal obligation. An alternative would have been to lower the rate of federal reimbursement.

Another way of expressing the spillover problem is to note the complexities of benefit areas. The areas over which benefits are received vary for different public services. One, albeit fanciful, solution is to create separate and overlapping taxing districts for each service.¹⁰ A more practical approach is a series of intergovernmental grants, each tailored to the peculiar circumstances of each problem. Ideally matching ratios would be calculated to achieve the optimal allocation of resources, but the political process is unlikely to produce grant legislation quite this precise. Moreover the proliferation of grants, especially those of a project variety, during the 1960s was accompanied by increasingly complex matching

requirements. Yet it is difficult to say whether grant design has indeed become more fine-tuned, or if the change is more of appearance, with the cost-sharing arrangements as arbitrary as ever (although not necessarily arbitrary in a political sense).

George F. Break has classified types of governmental services by benefit areas ranging from local to federal. This scheme indicates that the lowest matching requirements should be for those programs with peculiarly national benefits and the highest matching in those with basically local benefits. Beyond varying the federal share of program costs with the degree of benefit spillover, he suggests that matching requirements can be adjusted to account for different degrees of spillover in different parts of the country.¹¹

The debate over whether federal grants-in-aid distort state and local budgetary decisions is really part of the larger question of what cost-sharing arrangements are appropriate in light of the degree of benefit spillover. Break states:

The danger alluded to here is that states will simply match all federal grant funds that are available without close regards to the merits of the various alternative uses to which their own funds might be put. Once again the validity of this criticism can be determined only by considering the extent to which federal grants do in fact finance internal, as well as external, program benefits. If they cover only the latter, as a set of optimizing grants would do, the price at which internal benefits can be obtained is not altered by the grants, and hence there should be no distortion of state and local budgeting. If the federal grants do finance some of the internal benefits of a given program, however, the cost at which the state or local government can obtain those gains is correspondingly lowered, and if that reduction is large enough, budgetary officials can hardly be blamed for assuming that there are no superior uses for their funds.¹²

With open-end grants, according to Break's argument, less danger exists that Congress will decide to finance a larger portion of program costs than can be justified by the degree of benefit spillovers. Just the opposite danger is present with close-end grants. "Having decided to limit the amount of its

annual contribution . . . Congress may then be tempted to be lenient with regard to the matching requirements it imposes on the grantee government."¹³ In reality, however, Congress has no clear-cut empirical tests by which to measure benefit spillover and must rely on a combination of considered judgment and political compromise.

Administrative Purposes

Although Congress might not require state or local financial contributions because of the overwhelming program importance for the national interest, a matching requirement still may be preferred as a means to allow recipient participation in efficient and effective administration. In a non-federal country such programs might be administered directly by the national government; in a federal system, the preferred option is to use established state and local governments.

Some potential difficulties with no-match grants for the administration of national programs are illustrated by the long history of administration grants for the unemployment compensation program. "At the very outset it was realized that these had to be handled with special care. The states could not be left free to spend the grants for administration as they please, else careless spending would be certain."¹⁴ The Social Security Board was given authority to distribute funds using "the cost of proper administration" and other relevant factors. The Board at first required detailed quarterly reports, but this led to "bickering with the states over petty matters and forced all the states into a complicated routine which was appropriate only for those which were inclined to abuse their position."¹⁵ In 1938 the Board tried to use "objective standards" for measuring administrative costs, and in 1939 asked Congress to adopt merit systems.¹⁶ Maxwell concluded from his review of this 100% grant:

By it the Board has been able to enforce a more detailed supervision of state administration Again, the 100% grant enables the Board to equalize the financing of state administration On the other hand, the 100% grant puts upon the Board an exacting task which requires detailed scrutiny of state accounts and tends to bind all state agencies by bureaucratic rules Some method which would require the states to provide part of the funds for ad-

ministration seems, therefore, to be desirable.¹⁷

Although a no-match requirement or other cost-sharing mechanisms seem desirable because of other purposes, Congress may use a matching requirement to guarantee some state or local participation in the program's administration.

GRANT REQUIREMENTS RELATING TO STATE AND LOCAL EFFORT

States and localities can use federal grants in two fundamentally different ways. The grant revenue can be added to the funds already available to the recipient government for the aided function(s), thus increasing expenditures for the function(s) by the amount of the grant. Alternatively the recipient can substitute the grant revenue for already available funds, thus releasing funds equal to part or all of the grant for activities other than those intended to be aided. Whether or not the grant is narrowly categorical or broad in scope, e.g., GRS, Congress must consider the degree to which the grant funds are to be additive or substitutive. In the case of GRS, if the aided function is viewed as the totality of state and/or local governmental activity, the issue arises. The recipient government can either increase its total public spending by the amount of shared revenue or substitute the federal funds for state and/or local funds—in effect demonstrating a preference for private sector spending over public sector spending by means of a tax cut.

Predicting the degree to which a state or local grant recipient will use a grant to substitute for own-source spending is virtually impossible. Various states and localities can be expected to respond differently to the same grant for the same purpose, depending on how they value increased output of the aided activity compared to some alternative use for the money. The result is largely a byproduct of the cost to the grant recipient of increased output of the aided activity, as modified by matching requirements and politically expressed program preferences.

If Congress intends a grant to be totally additive to state-local expenditures for a particular activity or category of activities, it must design the grant accordingly. The first step is to define the scope of the activity it intends to aid. Grants meant to stimulate additional state-local spending for some particular purpose are preeminently categorical. Even block grants and GRS are categorical in this sense,

unless their intent is tax relief. The only difference from categoricals is the range of the aided activities.

Grant requirements that condition the receipt of funds on state-local effort all deal with this issue. Matching requirements not only affect the cost state and local governments must bear in providing aided activities, but also require that recipients exert a certain degree of effort as a prerequisite of aid.¹⁸ Maintenance-of-effort or nonsubstitution requirements serve a similar purpose. Some allocation formulas that contain effort factors also work like matching grants. Each of these types of grant provisions that impact nonfederal effort will be discussed in more detail.

MATCHING: SOME DEFINITIONAL CAVEATS

The term "matching requirement" is sometimes misleading, because it suggests that the recipient state or local government is required to put up a sum equal to a specified percentage of a particular grant, which is only partially correct. In the case of close-end formula or entitlement grants, the state or local government must meet a specified matching requirement in order to qualify for its maximum allotment of funds. Below that maximum point, however, the federal government matches a certain proportion of state-local expenditures toward the aided activity. In effect the federal government is committed to paying a certain share of the aided activity costs up to a certain point. In the case of a formula grant, the federal matching obligation ceases when the recipient government has claimed its maximum allotment as determined by the formula. In the case of an open-end percentage reimbursement grant, no ceiling on the federal obligation exists.

State and/or local governments frequently spend more than is necessary to qualify for the maximum grant as determined by a close-end formula, and this situation can be termed "overmatching." For example a state's maximum allotment under a dollar-for-dollar (50-50) matching grant may be \$100, but for various reasons the state may spend \$200 of its own money for the aided activity. Although this is a 50-50 matching grant, the effective matching rate is 33-67, i.e., if program costs are defined as the sum of federal and nonfederal contributions, the federal share of program costs is one-third. Beyond the expenditure necessary to claim the maximum federal allotment, therefore, the effective

matching rate is dependent on the nonfederal effort.

When a government spends more than is necessary to meet a matching requirement, the "why" of the overmatching must be considered. When state or local spending for a function precedes enactment of a federal aid program, this spending may well exceed the required federal match. Cross-section studies sometimes mistake this for stimulation; yet to do so is to mistake the nature of causation.

Matching grants, thus, can take essentially two forms. At one extreme are grants that approach a pure matching situation. Close-end formula grants come close to this type. In order to claim its total allotment, or any part thereof, a state must match the federal contribution at a certain rate. In such a case the statutory matching ratio may be misleading, because it is only by coincidence that the total federal allotment combined with the minimum required nonfederal contribution covers program costs. The recipient may overmatch not as a matter of choice, but as a matter of necessity to cover the total costs of an adequate program.

At the other extreme are programs for which the federal share represents a predetermined share of agreed upon costs. This approach implies a more precise determination of the appropriate division of financial responsibility for the aided activity. Project and open-end reimbursement grants come closest to this ideal. Instead of the federal contribution being a function of the nonfederal contribution (or vice versa), the federal and nonfederal shares are a function of the cost of the project, as allowed in the grant agreement. Project grants that allow a grant-by-grant cost-sharing negotiation permit, in theory at least, the most fine-tuned determination of cost-sharing.

Open-end reimbursement grants, like formula grants, eliminate direct competition between eligible recipients for federal funds. In both cases, the federal contribution is determined by state-local spending. However, an open-end reimbursement grant resembles a project grant because the federal and nonfederal shares are stated as a percentage of the program costs. In both open-end reimbursement and project grants, rules and regulations define reimbursable costs, against which the federal percentage is applied.

Several factors, therefore, need to be considered when interpreting matching requirements. First, it is necessary to distinguish between statutory matching requirements and effective rates of matching. The two may differ widely, as in the case of

overmatching. Second, program costs must be defined.¹⁹ A federal reimbursement grant may pay a percentage of program costs as defined by qualifying state expenditures, or the required nonfederal match may be a percentage of program costs defined as the sum of the federal and nonfederal contributions. Third, whose actions determine the amount of the match matters. Reimbursement grants require the federal government to match nonfederal expenditures. Finally, the temporal setting may determine the extent to which apparent overmatching occurs and also its meaning.

MATCHING: A MATTER OF POLICY

Because of the federal system, Congress must make two important policy decisions when enacting grant legislation. First, Congress must form some judgment, however implicit it may be, of national purposes. What activities are so important to the nation that they demand federal action? Thus when Congress enacts a grant-in-aid program in pursuit of some national objective, it must decide how narrowly or broadly to limit the use of federal funds. Should funds be given for slum clearance, or should they be given in a broad form via a block grant for community development activity? Similarly should aid for community mental health centers be limited to construction or broadened to include operating expenses?

Second, Congress must determine the degree to which the federal government shall assume responsibility for the accomplishment of the aided purpose. This is partly a matter of how the federal and state-local governments share the cost of the activity. The agreed sharing arrangement ideally may reflect judgments concerning national minimum standards or the degree of benefit spillover. If the latter is the case, the result may be a percentage reimbursement arrangement. If the former applies, the result may be a formula-based, no-match grant or 100% federal assumption of some predetermined level of state or local service output. When no other motive applies, Congress may require recipients to match some grant percentage in an effort to guarantee state or local interest in efficient and effective program administration. Further Congress may simply desire to stimulate a state or local financial commitment to a relatively new activity, in which case a matching grant may also be appropriate.

A survey of Congressional hearings in several program areas suggests that committees generally

pay closer scrutiny to the national purpose policy decision and less attention to the proportion of costs for which each level of government should be responsible. Congress focuses heavily on questions of which activities to aid—evidenced by the proliferation of narrow categorical grants—and how to apportion the funds among potential recipients. When Congress does consider reimbursement percentages and matching ratios, it is generally in terms of whether nonfederal requirements should be lower or remain the same. Congress seldom gives explicit consideration to the rationale for any particular cost-sharing level and even less attention to the underlying principles reflected in cost-sharing arrangements.

Categorical vs. Block Grants: Stimulation and Support Policies

Nearly two-thirds of all categorical grants have matching requirements. Block grants, on the other hand, have tended to do away with matching requirements, although other forms of recipient financial participation have usually been required.²⁰ The community development, manpower, and health block grants do not require a match. The criminal justice (LEAA) block grant has a matching requirement, and the Title XX social services program, which sometimes is considered as a block grant, is a close-end percentage reimbursement program.

Congressional deliberations over block grant proposals are a propitious time for giving greater attention to the role of matching requirements. In recent years the argument has increasingly been made that block or special revenue sharing grants are particularly well suited to purposes of supporting, rather than stimulating, state and local provision of services in established, mature functional areas. Matching requirements are inherently sensible when the primary federal objective is stimulation of state or local innovation and commitment, but when the federal emphasis shifts in the direction of supplementing recipient fiscal capacity or of providing general revenue support, the merits of matching are less obvious. One witness offered the following testimony during the 1971 subcommittee hearings on the proposed community development block grant legislation:

In perspective, I believe the Title V block grant proposal is both a bold reform of the

existing subsidy system and a logical step in the evolution of categorical assistance programs. *The federal government typically initiates categorical programs in the housing and community development area in response to problems not being adequately met by state or local governments. . . .* As categorical programs mature and their functions become a normal part of state and local government activities, there is a natural pressure for consolidation, administrative decentralization, and a withering away of routine federal responsibilities. The logical results are block grants, special revenue sharing, or even total abolition of federal involvement. (Emphasis added.)²¹

Nathan, Crippen, and Juneau also point out the importance of keeping program aims in mind when choosing a grant instrument. They recognize, however, that grants are often “unclear about their goals or reflect an amalgam of goals.”²²

The LEAA block grant is a case in point. By its breadth, it has the character of a support-type grant, with a shift to more reliance on nationally raised taxes. At the same time, its project-by-project distribution to local units was no doubt envisioned to have a stimulative effect.²³

In testimony to the Senate Subcommittee on Revenue Sharing, Nathan argued that narrow project grants are probably the most stimulative and that new programs tend to be more stimulative than old programs:

As programs get established, they have a lower stimulation effect. One of the ideas now current in intergovernmental fiscal affairs is that as programs age, we should move toward special revenue sharing, giving more discretion to state and local units in these areas for precisely this kind of reason. . . .

We need to recognize in addition that over the years as grants become less stimulative and functions more established, people who are particularly concerned about giving a significant measure of discretion to state and local governments may

feel that these grants can be changed into more general kinds of grant instruments, such as block grants, special revenue sharing, or ultimately perhaps also general revenue sharing.²⁴

This philosophy is reflected in the suggestion that in the medical field, for example, institutional support grants should be limited to temporary development assistance.²⁵ Ongoing costs of established activities would be supported by consumer fees augmented by the availability of medical insurance for the poor and, to the extent state and local governments so choose, from state and local expenditures (supported, perhaps, by general revenue sharing and block grants).

This philosophy was, in fact, the general type put forth by the Nixon Administration in 1974 in conjunction with its proposal for special revenue sharing for health services. The administration differentiated among five legitimate types of federal intervention.²⁶ First, it accepted a strong federal role in health and medical research because "the benefits of this activity are national in scope." Second, many preventive health and consumer protection activities were deemed to be appropriate federal roles. Third, the administration recognized a responsibility to provide direct services to those "segments of the population whose right to such care is recognized in law or whose need is especially acute because of the failure of more traditional means of providing health services." Fourth, a national health insurance scheme was advocated to remove individual financial barriers to health services. Finally, with these other responsibilities met, federal aid for health services delivery could be limited to support new delivery system initiation and be time-limited, incorporating from the outset feasible takeover financing from permanent alternative sources.

Although grant consolidations are commonly thought of as a means of easing administrative red tape, of increasing state and/or local discretion, or of encouraging improved planning and coordination of federal money within the larger context of state and local policy and budgetary processes, they also suggest a shift in emphasis from stimulation to support. The various categorical grants may have been a necessary stimulus at one time, but as the terrain of state and local governments expanded over time to encompass what was once "virgin territory," these activities become legiti-

mized. Thus those interests that demanded categorical treatment in the past may now be more willing to use a block grant.

Purpose and Matching

Matching and other effort-related requirements clearly have different roles in both narrow categorical and broad block grants. Matching per se (as opposed to reimbursement cost-sharing) is pre-eminently a categorical device, because the specificity of categorical grants is suited for purposes of stimulation. Categorical grants are seen as more precise statements of national purpose, while block grants usually involve more general indications of national purpose and tend toward support of functional clusters of activities that have become accepted state and local responsibilities. These relationships are displayed in *Figure V-1*.

Congressional decisions with respect to cost-sharing arrangements, therefore, ideally are part of more fundamental decisions about the primary purpose and the functional scope of grants. Such decisions, however, are obviously political and often do not appear to be the result of explicit consideration of specific matching requirements' impact on state-local spending or administrative behavior.

TWO APPROACHES

Intergovernmental cost-sharing arrangements can be approached in two ways. The typical Congressional approach, in the case of a categorical grant, is to settle on some arbitrary, yet politically acceptable, percentage of the grant that recipient governments should be expected to match. The

Figure V-1
Purpose and Result of Grant Types

Focus	Instrument	Result
national purpose	categorical matching grants	program stimulation
	block grants	
local purpose	general revenue sharing	budget support

other, less common, approach reflects a recognition of the range of cost-sharing arrangements possible in a federal system and their applicability to such purposes as equalization, minimum national standards, and program support.

An example of the latter approach is a proposal put forth by Association of State and Territorial Health Officials (ASTHO). ASTHO notes that when Section 314(d) of the *Partnership for Health Act of 1966* created a block grant for public health, there was "a clear expectation on the part of the States . . . that Federal funding would be increased to a level more commensurate with needs experienced in the public health sector."²⁷ However to date this block grant has only funded about 5% of state and local health department expenditures. ASTHO charged in 1974 that the Department of Health, Education, and Welfare (HEW) be concerned primarily with expenditure of federal funds and did not view the block grant as an integral part of state and local public health programs. Hence ASTHO proposed a cost-sharing scheme to work in conjunction with a national health insurance system. The insurance system would be limited to services that can be identified with the individual, while public health agency services would focus more on services than impact on entire communities. ASTHO proposed that the federal government share 40% to 60% of state public health costs, with the percentage to vary inversely with income.

The purpose of such an arrangement is not necessarily to stimulate new activity, although it could have this result in some instances. Instead it basically seeks to share the cost of a particular functional cluster of activities that benefit the entire nation. In the words of ASTHO: "Without a realistic 'partnership' of all levels of government, there is no way to assure equity across the nation in the delivery of those services which are basic to the protection, preservation, and enhancement of our citizens and communities."²⁸ A pure version of this cost-sharing approach would be open-end grants, as was the case with social services before the passage of Title XX of the *Social Security Act*, or as is the case with Public Assistance and Medicaid. Open-end grants, however, have proven difficult to control both financially and administratively.

Block Grants: Match or No Match

A survey of Congressional hearings on block grant and special revenue sharing proposals does

reveal a trend toward lower matching requirements or their elimination. Yet few attempts have been made to justify these moves except for largely undocumented claims that matching requirements in categorical grants have placed a burden on recipient governments.

During hearings on the community development and criminal justice block grants, administration witnesses and representatives of state and local governments both argued for lower matching requirements. Attorney General Elliot Richardson urged the abolition of LEAA matching requirements in 1973 hearings.

The elimination of matching requirements is especially important, for under law enforcement revenue sharing, all match—that is, "soft-match," and "hard-match," and so-called "buy-in" would be dropped. . . as it is now, match and buy-in requirements are a negative force—a drag on the safe streets program.

The lack of available match money has already prevented many good programs from getting the funding they deserve and has sometimes directed state and local efforts into less worthy channels.²⁹

Representatives of the National League of Cities (NLC) and the National Association of Counties (NACo) agreed with the administration. The NLC witness argued for total elimination of the match.

Quite aside from the Attorney General's correct observation that matching is a bureaucratic 'nightmare,' the fact is that any local government applying for funds makes a very substantial investment in overhead and indirect costs to obtain and administer those funds. The amount is not 5% or 10%, as allowed by the Office of Management and Budget Circular A-87, but 50-100% in real costs.³⁰

Similar testimony was heard in 1971 hearings on the proposed community development block grant legislation. Little, if any, attention was given to the reasons behind a proposed 10% matching requirement, except that state and local representatives favored it over the higher requirements of the existing categorical programs, preferring ultimately 100% no-match grants. No evidence was brought to

bear on assertions regarding the burdens imposed by matching requirements, and no documentation was made of cases where localities were unable to participate for lack of matching funds. Most discussion revolved around the merits of in-kind matches.

During the initial community development block grant hearings in 1971, Department of Housing and Urban Development (HUD) Secretary George Romney argued that the elimination of matching requirements would reinforce incentives for grant recipients to "use funds for high priority local purposes, rather than for projects for which it is easiest to budget the local share."³¹ Romney also contended that although matching might serve a useful purpose in narrow-purpose categorical programs, it is inappropriate in a block grant, such as community development:

... a local community which is not required to pay any share of the cost of a project under a categorical program would be tempted to apply for program funds even if the project is not very important to its well being. But Title IV differs in that its intent is to permit the local community ample discretion in applying the community development grant funds to purposes which it considers of high priority. Under these circumstances, there is no incentive to embark on a wasteful project simply because federal funds are available, and thus there is no need for a counter-incentive in the form of cost-sharing.³²

One Texas mayor argued that even with a 10% cash requirement, cities "would merely be jumping through another federal hoop which has limited substantive meaning, but nevertheless carries administrative burdens. . ."

I realize that some people feel that localities must put up some of their own money in order to take federal money seriously. I do not accept this rather simplistic assessment of city responsibility, but there is a more important point that must be made regarding the local share requirement. Even if the responsibility premise is correct, I question whether a 10% requirement is large enough to make any substantial difference in a program of this broad nature. I suspect that cities

would simply appropriate cash for a city project which would be considered as part of the community development programs. . . .

On the other hand, the alternative of increasing the local share or putting further conditions on it would do serious damage to the program by requiring localities to skew priorities in order to obtain federal funds. I honestly feel that a local share requirement has little value in a broad block grant or special revenue sharing programs, and that more is to be gained by concentrating responsibility at the local level.³³

THE LOCAL POSITION

The mayor's testimony reveals two aspects of the debate over matching. The first is its self-interested conjectural nature. The second is the incongruity in the position of many of the participants. If a 10% match is too small to secure local interest in program administration, arguing that it is a financial burden sufficient to distort priorities is ineffectual. This inconsistency illustrates the paucity of any real knowledge about the impact of matching requirements or whether they work at all.

Some, albeit limited, basic questioning of the administration's anti-matching position occurred during Senate community development block grant hearings. One Senator asked Secretary Romney whether a matching requirement would not be a means of "trying to insure greater responsibility on the part of local units?" Romney answered that matching distorted local priorities and favored communities that were best able to help themselves.³⁴ Another Senator put the same question to HUD Secretary James Lynn in 1973:

SENATOR BROOKE. Yes. For example, one of the things that I thought was an incentive to local governments to spend community development money wisely and economically and which you apparently would terminate is the 100% matching fund requirement. It seems to me that if states or counties really want to participate in community development, they could take the responsibility of taxing to raise at least 10% of the needed money if the federal government puts up 90%.

MR. LYNN. I think my statement speaks for itself on that point, Senator. I would only repeat that from my own knowledge of the HUD programs that 10% matching share has become nothing but a red tape exercise, that practically anything qualifies for it.

And that seems to me the much better way of getting the communities attention to spending the money the right way is to put on their shoulders the advantages and the burdens at the same time of determining the priorities of expenditures.³⁵

THE NIXON ADMINISTRATION POSITION

The testimony of Secretary Lynn before the subcommittee in July 1973 is perhaps the most complete summary of the Nixon Administration's position:

As the subcommittee is aware, local match requirements—particularly those provisions permitting noncash contributions—have eroded in their actual application to the point where nearly anything goes, and it is questionable whether the basic objective—promoting local interest in the project through requiring local funds—has much meaning.

Of more importance, we believe that making local officials take the responsibility for deciding how the funds will be spent is a better way to assure proper attention to priorities.

Finally, experience has shown that the determination of noncash contributions is among the greatest producers of red tape, delay, and confusion in connection with community development programs.³⁶

Administration spokesmen not only argued that matching requirements distorted local priorities, but also emphasized administrative difficulties of compliance, particularly in the case of noncash contributions. Whether or not intended, the arguments against noncash contributions only seemed to make any matching requirement less likely, given the appeal of noncash matches to nonfederal officials. Finally, the committee testimony consistently indicated that matching was considered primarily as an inducement of more responsible state and local administration of federally funded programs. Stimu-

lation or compensation for benefit spillovers received little attention as purposes to be served by matching.

Because no strong argument for matching or its effectiveness was made, the community development block grant emerged from the conference committee in 1974 without a matching requirement.³⁷

Closing the Open End

The controversy that resulted from some states prior to 1972 taking advantage of open-end federal reimbursement for social services under Titles IV-A and VI of the *Social Security Act* produced one of the most heated Congressional debates involving a matching grant. Loosely drawn statutory language, combined with the absence of strict administrative interpretation and regulation, resulted in a situation in which adept states were able to use 3-for-1 federal dollars to refinance a wide range of activities under the rubric of social services. Social services grants, in short, functioned as a type of "backdoor revenue sharing."³⁸

HEW blamed the law for the loopholes—in the words of Under Secretary John G. Veneman, "under the law . . . the sky's the limit."³⁹ The law did not define social services but only described their purposes.⁴⁰ The original 1962 law authorized services specified or prescribed by the Secretary, but this phrase was eliminated in 1967, leaving HEW to prove that state claims for funds were invalid.⁴¹ Some attention might have been paid to the favorable 75% federal matching rate when the program got out of hand, but Congress chose instead to shelter the federal treasury by putting a ceiling on total federal obligations.

Theoretically, at least, three options were available. One was to either statutorily or administratively tighten the definition of services eligible for the 75% federal reimbursement, but this would be neither easy to accomplish nor to enforce. Second, the federal matching rate could have been reduced, thus making it less tempting for states to develop ingenious schemes for refinancing. This option, it can be fairly assumed, presented two problems—the effect of any given change in the matching rate was unknown and lowering the federal share surely would be politically unpopular. The third option, a simple closing of the open-end, if not altogether popular, was certainly the easiest. However in choosing this option, Congress moved further away from a true cost-sharing principle. Given the difficulty of open-end reimbursement schemes and

Congressional fondness for high federal/low non-federal matching formulas, either a ceiling on federal obligations or well defined and enforceable categories for reimbursement clearly was necessary to protect the federal treasury.

Congressional hearings on the social services program support this analysis. In his opening statement HEW Under Secretary John G. Veneman outlined administration attempts to (1) draw up more precise statutory definitions of eligible services, and (2) legislate a specific dollar authorization limit.⁴² During the hearing the subcommittee chairperson, Rep. Martha Griffiths, repeatedly asked Veneman why HEW had not "put out some regulations" to keep the states from refinancing their own programs with federal money. Veneman noted the difficulty of drawing lines and argued that strict enforcement would be unfair to those states that had ambitiously funded new programs with their own money before federal money became available. Veneman added that:

The regulations would have applied to an open-end appropriation. And maybe I am not reading Congress right, but I think the tone of Congress right now is that you can't continue with open-ended; there is going to have to be some limitation.⁴³

One committee member from New York, a state that took advantage of the open-end situation, however, did question the propriety of a ceiling.

I am a little bothered about the whole business of closing the end on this by putting a ceiling on it. How do you divide the money between the states now? Are you going to divide it among those who have historically gotten on this gravy train? . . . Here is New York, right in there trying to make up for lost time this year. Don't they have as good a claim despite their historical slowness to react as some state that has been in there defining services very generously for a long time?⁴⁴

The Congressman asked whether some legislative remedy short of imposing a ceiling existed. Veneman replied that more precise legislative language was desirable and that without the first step, HEW probably could not act without facing litigation.⁴⁵

The hearing record indicates a thoughtful con-

sideration of the merits of imposing a ceiling as opposed to tightening the regulation. Yet this record is remarkable for the striking absence of any consideration whatsoever of the significance of the 75% federal reimbursement rate or the effect of changing it.

THE HISTORICAL TRENDS

The cost-sharing characteristics of the present grant system can be better understood when placed in historical perspective. Three distinct periods can be identified. Federal grants prior to the 1930s were generally intended to stimulate new state activity and typically carried dollar-for-dollar matching requirements. Beginning with the Depression years of the 1930s, concern for the fiscal health of state governments led to two trends. First, many matching requirements were eliminated or effectively lowered by supplementing some programs with discretionary nonmatching funds. Second, some matching formulas were made variable to account for differences in states' fiscal capacities. In the most recent period, especially during the 1960s, Congress used low matching requirements to encourage new domestic programs of national interest.

Matching Requirements in Early Grants

The first instance of Congress requiring the states to match federal funds with a similar amount of state funds occurred in 1890 when the Congress amended an appropriation for capitation grants for homes for disabled soldiers and sailors.⁴⁶ The first open-end or indefinite matching grants were the annual federal grants initiated in 1911 for the maintenance and support of state and municipal marine schools.⁴⁷ Such arrangements usually include some modified upper limit on the federal liability; in this case, the limit was \$25,000 per school.⁴⁸ This arrangement was a forerunner of that adopted for public assistance financing, which also was an open-end grant but with a ceiling for payments per individual recipient.⁴⁹

The *Smith-Lever Act of 1914*, which aided agricultural extension work, required dollar-for-dollar matching. Although a state's allotment depended on a formula reflecting rural population, the actual amount a state could claim for that allotment depended on its matching contribution.⁵⁰ Each state also was allotted a \$10,000 match-free flat sum

in addition to the rural population-based share requiring matching.⁵¹ The *Capper-Ketcham Act of 1928* supplemented the Smith-Lever funding using the same two-fund arrangement.⁵² This approach was a forerunner of that used in the child and maternal health grants under the *Social Security Act of 1935*.

The first really fiscally significant aid program, the *Federal Aid Road Act of 1916*, continued the dollar-for-dollar match pattern. Again the state's maximum allotment was determined by a formula, but the actual amount depended on the state's effort.⁵³ The *Smith-Hughes Act of 1917*, in support of vocational education, also required a dollar-for-dollar match, as did the *Smith-Bankhead Act of 1920*, in support of vocational rehabilitation.⁵⁴

A series of small grants for special studies and demonstration work in rural sanitation initiated in 1916 represented an early variation in the definition of matching. The early matching grants described above required the recipient state to match the federal contribution on a dollar-for-dollar basis. Although these are commonly referred to as 50-50 matching grants, more precisely they committed the federal government to match 100% of state-local expenditures up to the limit imposed by a state's allotment. The rural sanitation grants, however, were of a project nature, and states requesting demonstrations had to agree to pay one-half the costs.⁵⁵ The nonfederal matching share was determined by the costs of the aided activity; in the previous cases, the matching share was a function of the available federal grant allotment.

The *Chamberlain-Kahn Act of 1918* allocated funds to the states on the basis of population for the prevention and control of venereal diseases but excused states of their matching obligations until the second year.⁵⁶ The *Sheppard-Towner Act of 1921*, which provided funds for the welfare and hygiene of mothers and infants, required a dollar-for-dollar match for the portion of the funds distributed according to population; but for another portion distributed on a lump-sum basis, nonfederal matching was required only for the first \$5,000 of each state's allotment.⁵⁷

The *Highway Act of 1921* modified the federal highway aid program by raising the federal percentage above 50% for states with large portions of their territory in unappropriated public lands and nontaxable Indian lands. During this initial 40-year period, therefore, dollar-for-dollar matching was the norm. At the same time variations and

refinements emerged that would be enlarged upon in later years. These included quasi-open-end grants, flat-sum allotments exempted from matching, and cost-sharing arrangements.

The Depression and Matching

The Depression years of the 1930s produced changes in the traditional pattern of dollar-for-dollar matching. As the number and dollar amounts of federal aid programs grew, many states had difficulty matching their full federal allotments. In the case of vocational rehabilitation grants, the Congress in 1932 authorized the reapportionment of funds that had not been matched to those states that were willing to match federal contributions beyond their original population-based allotment. The effect for most states was that the grant was transformed into a simple percentage reimbursement grant.⁵⁸

Two types of adjustments generally were made during the Depression years to lessen the matching burden. One approach was to adjust both the distributional formula and matching requirements so that the same level of service could be maintained. Under the second approach matching requirements were reduced for all states.⁵⁹ The grant system generally was recognized as ultimately limited by the ability of fiscally marginal states to raise the required matching funds. If state participation was to be maintained, then varying state fiscal capacities had to be recognized.

The *Emergency Relief and Construction Act of 1932*, for example, apportioned \$120 million for highway construction in the form of a temporary advance that could be used by the states to match their regular federal aid apportionments. Yet even these amounts were to be reimbursed beginning in FY 1938 through annual deductions from regular allotments.⁶⁰ Legislation in 1933, 1934, and 1935 dispensed with the matching altogether during this emergency period.⁶¹ The *Federal Emergency Relief Act of 1933* (FERA) left it to the discretion of the administrator to distribute most of the funds among the states, and the standard matching requirement was waived in most cases.⁶² Similarly, the *Emergency Relief Appropriation Act of 1935*, which was geared to eliminating railroad grade crossings, required no state matching.⁶³

One analyst of these programs noted that FERA caused some controversy because of the amount of discretion allowed the administrator. Those who

favored writing the matching provisions in the legislation thought that the matching approach was desirable because "it gave more to those states with the greater expenditures, or 'need.'"⁶⁴ Others argued that expenditures were not a good measure of need, and that such an approach did not really reward need but rather served to increase disparities. By the end of the program's first year, all relief grants were disbursed on an administrative basis, and later grants did not include matching. Fifty-fifty matching funds were deemed contrary to the principle of equalization and unsuited to the emergency relief situation of 1933-35.⁶⁵

Another point of controversy resulted when some states took advantage of the no-match situation in highway aid by curtailing their own expenditures and diverting their motor user tax revenues to other purposes. Congress intervened with the *Hayden-Cartwright Act of 1934*, which declared that any state reducing the amount of motor vehicle fees and gasoline taxes spent for highways could lose up to one-third of its federal highway aid. The *Highway Act* in 1936 took a more positive approach and stipulated that a state that used all its user tax revenues for highway purposes would receive their entire allotment, whether or not they could match it. This would give a break to states making a true effort, but the test was loose because it did not consider the rate at which a state taxed itself.⁶⁶

The *Social Security Act of 1935* was a watershed for matching grants. It established open-end matching grants for three public assistance programs, with the federal government committing itself to match all eligible state-local expenditures, subject only to a limit on the amounts the federal government would pay per month per individual aid recipient. The act also created three programs in the Children's Bureau for maternal and child health, crippled children, and child welfare services. The *Social Security Act* reflected a clear preference for cooperative federal-state financing of state-administered programs. Only one part of the omnibus act—old-age insurance—was to be administered on a purely federal basis. Old-age assistance, unemployment compensation, assistance to dependent children, maternal and child care, services for crippled children, care of neglected children, vocational rehabilitation, pensions for the blind, and public health work were all designed as cooperative federal-state programs.⁶⁷

The public health program constituted a breakthrough because earlier joint undertakings had not

fared well. The *Chamberlain-Kahn Act of 1918* had provided grants for venereal disease control, but Congress terminated the assistance after two years. The more wealthy states continued the program, while a sharp cut-back occurred in other states. The *Sheppard-Towner Act of 1921* offered assistance for infant welfare and hygiene. Each state had to match half of a flat sum allotment of \$10,000 and remaining funds were distributed on the basis of population. Yet these grants were allowed to expire in 1929. Some states had never joined the program, and only one-quarter of the federal appropriations were used.⁶⁸

The Depression opened the door for federal-state cooperative health work. By 1939 appropriations for grants grew to \$11 million, distributed according to population, special health programs, and financial need. Initially the population-based portion had to be matched, because of administrative, not statutory, policy. One-tenth of the special programs portion also had to be matched, but practically no matching was required of the needs-based portion. In 1941 the Surgeon General required one-half of the population-based and special problems-based portions to be matched with pre-1935 appropriations, and one-half with new appropriations made since 1935.⁶⁹ Similarly matching of special grants established in 1938 for venereal disease control was not required by law, but it was required by regulation because state and local financial participation was deemed desirable.⁷⁰

The Children's Bureau grants for child and maternal health activities also gave increased administrative discretion. The Secretary of Labor could use a needs-based "B" fund to supplement "A" fund flat grants. Because these "B" funds required no match, they could, in effect, be used to lower matching ratios for needy jurisdictions.⁷¹ A similar "A" and "B" fund arrangement was used for crippled children services grants.⁷²

Funds for discretionary no-match grants also were provided for by the agricultural extension amendments of 1935. Starting with the *Hatch Act of 1887*, Congress had authorized no-match flat-sum grants to the states to establish and operate agricultural experiment stations. Under the *Bankhead-Jones Act of 1935*, Congress changed the allocation method to reflect rural population, and instituted a matching requirement, which applied only to funds appropriated under the new act.⁷³ Although it reversed the earlier practice by requiring matching for experiment station grants, the act did

the opposite in the case of the extension service by waiving matching requirements for new funds. Many states and local governments were cutting back expenditures for the aided activities, and the grants requiring a match would not be very attractive. The federal share of total cooperative expenditure for the extension service jumped from 45% in 1935 to 56% in 1941.⁷⁴ Grants for cooperative farm forestry also were put on a discretionary no-match basis.⁷⁵

Another early tactic was to broaden the categories for which federal aid could be used, making it easier for states to substitute federal grant money for state-raised funds. In 1936 the matching requirement for the elimination of railroad grade crossings was removed, and in 1938-39 the grant program was expanded to include secondary or feeder roads, farm-to-market roads, and public school bus routes.⁷⁶

Another approach was to increase the amount of federal grant funds without increasing the amount of state matching funds. In vocational education, for example, the *Smith-Hughes Act* and the *George-Elzey Act* (which was due to expire in 1936) had made about \$10.6 million a year available to the states.⁷⁷ Although these acts required matching, the states and localities actually spent much more than was required to qualify, as *Table V-1* shows. This program area was popular, represented by an active lobby. Richer states tended to overmatch for industrial and home economics training, while poorer states spent more for agricultural training.⁷⁸

With the passage of the *George-Deen Act*, the federal contribution to vocational education was raised to \$22.3 million in FY 1938, and states were required to match only 50% of the federal contribution—in effect making it a 67-33 match.

The nonfederal contribution, however, was slated to increase to 60% of the federal contribution by FY 1943, and subsequently by 10% annual increments until full matching was reached.⁷⁹

Vocational education grants during this period were criticized for being too successful. Observers argued that the grants, and their matching provisions, attracted state and local funds that otherwise would have supported general education. Although *Table V-1* shows that the states as a whole spent \$1.84 for every dollar in federal aid, wide interstate variation existed, with some states spending little more than the required matching funds. Federal aid was in excess of 50% of total federal, state, and local expenditure in 11 states.⁸⁰ When the grants were initiated in 1917, the consensus was that vocational education had lagged and needed a stimulus. By the early 1940s, critics charged that the growth in grants for vocational education had reduced state and local funds available for general education.⁸¹

Grants for vocational rehabilitation, on the other hand, do not appear to have been as stimulative during this period. The initial legislation was passed in 1920, and by 1929 only four states were outside the program. Until the 1930s, however, one-third to one-half of the annual federal allotments were not used. Only a few states—New York, Wisconsin, and Montana—overmatched by more than small amounts.⁸²

The early 1940s brought few departures from established patterns. The Vocational Rehabilitation Act Amendments of 1943 abandoned population apportionments in favor of reimbursement of expenditures approved in a state plan paralleling the method used in the public assistance program.⁸³ The *Public Health Service Act of 1944* required states to match at least 50% of grants for public health and venereal disease control, but provided 100% grants for tuberculosis control, while the *Federal Highway Act of 1944* provided \$0.5 billion dollars over three years to be matched in full by state-local funds.⁸⁴ Emergency grants for forest fire prevention (1944) required no match, while grants for strategic network highways were distributed half with 75% federal matching and half on a discretionary no-match basis.⁸⁵

MATCHING AND EQUALIZATION

Despite the awareness of varying state fiscal capacity generated during the Depression years,

Table V-1

State and Local Expenditure for Vocational Education per \$1.00 of Federal Expenditure FY 1936 and 1942

	1936	1942
Agriculture	\$1.67	\$1.66
Trade and industry	3.38	2.27
Home economics	3.06	2.03
Teacher training	1.22	1.19
Distributive education	—	.70
TOTAL	\$2.43	\$1.43

Source: James Maxwell, *The Fiscal Impact of Federalism in the United States*, Cambridge, MA, Harvard University Press, 1946, p. 85.

the first grant with an explicit variable matching formula was not passed until 1946. The *National School Lunch Act* stipulated that matching requirements for low-income states be reduced by the percentage that their per capita income fell below the national average. The program also included a "ratchet" provision. From 1947 to 1950, a dollar-for-dollar match was required; from 1951 to 1955, a match of \$1.50 for every grant dollar was stipulated; thereafter the states paid \$3 for every dollar of aid (25%-75%).⁸⁶

The *Federal Airport Act of 1946*, like earlier road legislation, offered more favorable cost-sharing arrangements to public land states. The federal share generally was set at 50% of allowable costs for smaller airports and at a percentage, determined by the Administrator of Civil Aeronautics, not to exceed 50% for larger airports. The federal share for states with at least 5% of their land area in unappropriated and unreserved public lands and nontaxable Indian lands was to be increased by one-half of this percentage but not by more than 25%, as in federal highway grants.⁸⁷

The House Ways and Means Committee in 1946 reported a bill with variable matching provisions for old-age assistance, aid to dependent children, and aid to the blind but later reversed, maintaining the 50-50 matching arrangement. The 1946 amendments, however, added additional match-free funds for the three maternal and child health and welfare programs.⁸⁸ The current provision, which varies matching requirements according to states' per capita personal income, was not passed until 1958.

The Senate version of a proposed hospital survey and construction aid program included a provision to vary matching ratios according to per capita income, but it was rejected. The exclusion of this provision in the Hill-Burton legislation, according to one analyst, resulted in "a far greater effort on the part of the lower-income states in matching their federal allotments," thus preventing the equalization of state tax effort in support of the program.⁸⁹

STATE vs. LOCAL MATCHING

Although practically all grants in this early period were of the federal-state variety, the issue of state versus local cost sharing was not always a settled one. Because of the historical responsibility of counties for highway programs, for example, county funds were allowed to be used as part of a

state's matching contribution. However the difficulty of combining dozens of county road programs into a coherent statewide system soon evidenced the need to give states a role in the administration of highway planning and construction. Thus in 1921 Congress required that state matching originate from state-controlled funds.⁹⁰

In the case of vocational education funds, initial reliance on local matching created difficulty in achieving adequate statewide program participation. When a Georgia Congressman realized that his district was not receiving its share of funds because the localities could not afford the match, he initiated a state matching requirement.⁹¹ The *Wagner-Peyser Act of 1933* required a match from state, not local, funds for unemployment offices. This approach was viewed as a means of achieving uniform statewide standards for the personnel involved.⁹² Several sections of the *Social Security Act of 1935* also required a state match in an effort to assure that funds could reach poorer counties.⁹³

STATE OF THE ART IN 1947

In summary grants enacted during this period (1930-47) had several salient matching characteristics. Most required dollar-for-dollar nonfederal matching of federal grants. Yet a pattern of supplementing some matching grants with match-free discretionary funds also had emerged. In addition formula grants for vocational rehabilitation and public assistance moved toward a type of cost-sharing, or reimbursement, arrangement based on program costs.

As shown in *Table V-2*, in 1946-47 approximately 84% of all federal grants required matching. Less than 10% of the funds, however, were in programs with variable matching requirements.

Matching Provisions Since 1950

The range of state and local activities assisted by federal grants-in-aid has mushroomed in the past three decades. One authority wrote in 1949 that up to that time, federal grants supported only the "secondary" or "developmental" functions of government, such as welfare, health, education, transportation, agricultural experimentation, conservation and development of natural resources, and administration of unemployment insurance. Federal aid for the primary functions of protecting life and liberty, the administration of justice, and general govern-

Table V-2
**Estimated Amount of Grants, By Major
 Allocation Bases and Matching Requirements,
 1946-47**

(Amounts in Millions)

Basis of Allocation	Amount
Total, no matching required	\$ 212
Total, fixed ratio matching	954
Total, matching varied according to fiscal ability	73
TOTAL	\$1,237

Source: Based on estimated obligations for 1946-47 shown in the *Budget of the United States Government*, for the fiscal year ending June 30, 1948; table adapted from Federal Security Agency, *The Principle of Equalization Applied to the Allocation of Federal Grants*, Social Security Administration, Bureau of Research and Statistics, September 1947, p. 57.

ment were nonexistent. Even the poorest states generally could provide these primary services at adequate levels.⁹⁴

If this analysis is correct, it helps explain why most early grants required generally high—i.e., dollar-for-dollar—matches. They were for secondary purposes; therefore the requirement of state-local financial participation was a way of inducing grant recipients to compare the costs and benefits of adopting new programs. Participants also had some incentive for efficient administration. At the same time the federal grant sufficiently lowered the effective recipient price of the new service to stimulate new activity.

As these secondary functions became more established, observers argue that they began to resemble primary activities. Moreover as the scope of government expanded, new activities qualified for developmental status.

From the national vantage point, two broad trends stand out. First, Congress increasingly moved toward grants with either low or no matching requirements. This tendency is consistent with an expansion of activities that were viewed as being in the national interest. After 1960 grants typically involved a narrowly stated national purpose.⁹⁵ Second, Congress' developmental impulses were increasingly directed to the fertile fields of substate and local government and the private and quasi-public sector. Local government was less able to meet high matching requirements, and the growth of "private federalism" as well as of federal-local relationships required increased use of a different type of cost-sharing mechanism—the project grant.

TREND TOWARD LOW MATCHES

Over the past two decades, the trend clearly has been toward lower nonfederal matching shares. Mushkin and Cotton marked 1956 as the turning point.⁹⁶ That year Congress established a 90-10 matching grant for the interstate highway system. In the 1960s the Great Society programs commonly authorized federal matching shares of 80% or more.

Not only have federal matching shares become higher and more diverse, but they have been applied "as if they were a precise tool for encouraging (1) organizational changes in government or (2) provision of services considered of high national priority."⁹⁷ For example although federal shares for college construction are generally one-third, if the project is a community college, the federal share jumps to 40%. Administrative costs for welfare are shared 50-50, but the federal government will pay 75% of the costs for administrative services that have the potential for preventing poverty. Road construction in redevelopment areas is eligible for a bonus federal contribution of 10% above the prevailing federal share. Very poor communities may have the nonfederal match requirement in the neighborhood legal services program waived.

The Advisory Commission on Intergovernmental Relations (ACIR) reported in 1964 that 47 of 60 federal grant programs in FY 1962 required some matching contribution from the grantee.⁹⁸ The 13 exceptions included the Area Redevelopment Administration, Indian Education and Welfare, Clinics for Domestic Agricultural and Migratory Workers, Control of Outdoor Advertising, Disaster Relief, Land Grant Colleges, Maintenance and Operation of Schools in Federally Affected Areas, Special Milk Program, State Supervision of Schools and Training Establishment (VA), Unemployment Compensation and Employment Services Administration, Vaccination Assistance, and Venereal Disease Control.

These no-match grants accounted for only 12.4% of FY 1962 grant funds. Generally they were in areas of clear federal responsibility (Indian education and welfare, aid to federally impacted schools) or for federal programs administered by states for reasons of convenience (employment service and unemployment compensation).

A 1967 ACIR study revealed two clear historical trends in the matching composition of the grant system.⁹⁹ (*Table V-3* summarizes these developments.) The first is the emergence of a greater variety of matching provisions beginning in the 1930s.

Before 1935 all matching grants, with one exception, required dollar-for-dollar (50-50) matches. Congress later began legislating a wide variety of matching ratios—a trend that reached a peak with the Great Society programs of the 1960s.

Most variety came in the form of lower non-federal matching requirements. The relative number of 50-50 matches declined steadily, from over half of all grants enacted before 1935 to only about 15% of all grants originating between 1951 and 1968. No-match grants generally accounted for just over one-third of all new grant enactments, except during the 1950s when one in every two new grants provided for 100% federal financing. Although the proportion of grants with 50% matches was falling from 30.9% to 15.6% during this period, the proportion of grants requiring no matching went from just over one-third to over one-half. The most notable thing about the 1961-68 period is the increase in the proportion of low-match grants—those with nonfederal contributions of less than 50%. The consolidation of a number of matching categorical grants into no-match, or very low-match, block grants in recent years continued the trend toward lower overall matching requirements for federal aid. This trend is somewhat mitigated, however, by the increased fiscal importance of the Medicaid and Public Assistance programs.

Matching grants still dominate the intergovernmental grant system. A recent ACIR-sponsored study by researchers at Syracuse University identified the predominant cost-sharing principle of 73 of 100 FY 1972 Treasury Department functional grant categories. It found that some 85.3% of FY

1972 grant funds accounted for in those 73 categories involved matching.¹⁰⁰ GRS was not included in the study, nor were manpower or community development block grant funds, which were enacted after 1972. These new programs, of course, have added to the nonmatching share of the federal aid system. Eighty percent of the funds in the identified categories were assigned to the low-match category—the nonfederal contribution being less than 50% of program costs.

Only about 15% of the remaining funds were labelled as high matching by the ACIR-sponsored study in either FY 1967 or FY 1972 these being aid programs for which the recipient has to put up at least 50% of the cost, including all 50-50 matching grants. The great bulk of funds, therefore, were in categories labelled as low match, meaning the federal government pays more than half the cost.

MATCHING GRANTS IN 1975

This analysis of the composition of the grant system is based on three data bases. The first is the result of an ACIR effort to systematically summarize the defining characteristics of all federal grants for which state and local governments are eligible (442 distinct grants funded in FY 1975).¹⁰¹ A second data base is derived from an Office of Management and Budget (OMB) listing of programs that according to the *1976 Catalog of Federal Domestic Assistance*, have grants of types A (formula grants), B (project grants), or C (direct payments for specified uses). Although pertinent financial data on a grant-by-grant basis was not

Table V-3
Matching Ratios, By Calendar Year of Origin
 (Entries Indicate Number of Programs Initiated During Each Period)

Federal Participation	1879-1933	1935-50	1951-60	1961-68
Less than 50 percent ^a		5 (9.1%)	3 (4.7%)	10 (4.0%)
50 percent	9 (56.3%)	17 (30.9%)	10 (15.6%)	39 (15.4%)
50-100 percent		9 (16.4%)	8 (12.5%)	71 (28.1%)
100 percent	6 (37.5%)	19 (34.5%)	33 (51.6%)	93 (36.8%)
Other ^b	1 (6.3%)	5 (9.1%)	10 (15.6%)	42 (16.6%)
TOTAL	16 (100%)	55 (100%)	64 (100%)	253 (100%)

^aCategory includes grants with matching ratios of 33-67%.

^bCategory includes the following kinds of matching: "some local," "part or all," "declining," and "variable."

Source: Advisory Commission on Intergovernmental Relations. *Fiscal Balance in the American Federal System (A-31)*, Washington, DC, U.S. Government Printing Office, 1967. Vol. 1, pp. 157-59.

readily available for the ACIR sample, the OMB listing does include FY 1976 obligations for each program. The latter data set, however, is not limited to programs for which state and local governments are primarily eligible. The final set of data available for descriptive purposes is that used in a study on matching and stimulation prepared by researchers at Syracuse University for ACIR.¹⁰² This source is useful because it includes FY 1972 outlay data and is restricted to grants to state and local governments. This source, however, does not offer data on a program-by-program basis, including only summary data for 84 of 100 federal treasury outlay categories that were successfully "identified" as to content. Of these the study identified dominant grant type (project or formula) for 75 categories, and matching ratios (high, low, or no match) for 73 categories.

Tables V-4 and V-5 summarize these three data bases according to grant type and matching requirements. Only the Syracuse study distinguishes between low-, high-, and no-match grants. A grant requiring a nonfederal share of less than 50% is a low-matching grant, while a grant requiring a nonfederal share of 50% or more is a high-match grant. This classification scheme has been expanded in the other two data sets to distinguish between high-match grants requiring a 50% match and those few requiring a match greater than 50%. In addition a cost-shared category has been added to handle grants for which matching is negotiated on a case-by-case basis, and a variable-match category has been added to designate those programs for which the matching requirement varies according to state per capita personal income. The ACIR data for FY 1975 also distinguishes between project, project-formula, and formula grants.

Based on this data the best estimate is that nearly two-thirds of federal grants to state and local governments require some nonfederal matching. In the ACIR analysis 38.5% of the 442 programs were designated as no matching. The percentage ranges from 37.3% in the ACIR-sponsored Syracuse study to 40.5% in the OMB report. Because the OMB data includes grants for which state and local governments are not eligible, grants to state and local governments would appear more likely to require nonfederal financial contributions than grants as a whole.

The cost-shared category accounts for nearly 10% of the grants in the ACIR study, but accounts for nearly 23% in the OMB printout. Again this

situation probably reflects the inclusion in the *Catalog* sample of many nongovernmental recipient grants, especially research grants in the health field.

Table V-4 indicates wide variations among the three data sources in estimates of the number of grants in the low-match category. ACIR estimates that slightly under one-third of all grants for which state and local governments are eligible require low matches; i.e., of the two-thirds of all grants requiring some degree of nonfederal financial participation, about one-half require nonfederal matches of less than 50%. Another 10% of the total number of grants falls in the cost-shared category, while only 13.5% require matches of 50% or more.

Some differences also emerge between different types of grants (Table V-6). Project grants are much more likely than formula or project-formula grants to have cost-shared provisions. Formula grants and project-formula grants are twice as likely as project grants to require high matches of 50% or more. The OMB data reveal a similar pattern, with half of all formula grants and 40% of project grants having no matching requirements. Project grants again are much more likely to have cost-shared provisions (27.1%), and formula grants are nearly twice as likely as project grants to require high matches of 50% or more.

Although some two-thirds of all grants to state and local governments require matching, nearly four-fifths of the dollars involved are accompanied by matching requirements (Table V-5). Specifically 40% of the programs included in the OMB *Catalog* data require no match, but only 23.2% of FY 1976 obligations fall in this category. The ACIR-sponsored Syracuse study classified 37.3% of the 75 categories in 1972 to be predominately no match, but this involved only 14.7% of the total aid funds. Nearly 80% of the grant funds are accounted for by the low-match category according to the Syracuse study, and 66.7% are in this category as reported in the OMB data. Overall, only a small amount of federal grant moneys involve high matching requirements. Just over 5% of the funds for the 75 outlay categories analyzed by the ACIR-sponsored Syracuse study and only 2.9% of the obligations for formula and project grant programs in the OMB sample were in this category.¹⁰³

As was the case with program numbers, more project grant dollars are associated with cost-shared provisions than are formula grant dollars (Table V-7). About one-third of all project grant dollars,

Table V-4
Composition of Grant System, By Match and Grant Type

	Number of Categories			Number of Programs							Percentage of Total Categories			Percentage of Total Programs								
	ACIR-Syracuse			OMB Catalog			ACIR 1976				ACIR-Syracuse			OMB Catalog			ACIR 1976					
	Project	Formula	Total	Project**	Formula**	Un***	Total	Project	Project/Formula	Formula	Total	Project	Formula	Total	Project	Formula	Un	Total	Project	Project/Formula	Formula	Total
No match	24	4	28	161	38	1	200	116	12	42	170	32.0%	5.3%	37.3%	32.6%	7.7%	0.2%	40.5%	26.2%	2.7%	9.5%	38.5%
Cost-shared				110	2	0	112	41	1	0	42				22.3	0.4	0.0	22.7	9.3	0.2	0.0	9.5
Low match	20	11	31	90	24	8	122	94	13	38	145	26.7	14.7	41.3	18.2	4.9	1.6	24.7	21.3	3.0	8.6	32.8
Fifty percent				30	10	2	42	28	8	23	59				6.1	2.0	0.4	8.5	6.3	1.8	5.2	13.3
High match	10	4	14	5	1	1	7	0	0	1	2	13.3	5.3	18.7	1.0	0.2	0.2	1.4	0.0	0.0	0.2	0.2
Variable match								1	1	6	8								0.2	0.2	1.4	1.8
Unclassified	1	1	2	10	1	0	11	16	1	0	17	1.3	1.3	2.7	2.0	0.2	0.0	2.2	3.6	0.2	0.0	3.8
TOTAL	54	19	75*	406	76	12	494	296	36	110	442	72.0%	25.3%	100.0%	82.2%	15.4%	2.4%	100.0%	67.0%	8.1%	24.6%	100.0%

*Out of 100 Treasury categories, 16 categories could not be "identified," 9 categories (of 84) could not be classified as "project" or "formula."

**Project grants include all programs that are at least in part, Type B grants. Formula grants include all programs that are at least in part, Type A grants.

***Includes programs listed as "AB" type grants in catalog.

OMB Catalog Data: Variable matches not readily identifiable from printout. The Syracuse data and ACIR's data include only programs for which state or local governments are eligible; the OMB data is not so constrained.

Un = unclassified.

Source: ACIR tabulations; ACIR-Syracuse data from Advisory Commission on Intergovernmental Relations, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels and Wage Rates* (A-61), Washington, DC, U.S. Government Printing Office, 1977; OMB Catalog data based on OMB, *1976 Catalog of Federal Domestic Assistance*, Washington, DC, U.S. Government Printing Office.

Table V-5
Composition of Grant System, By Match and Grant Type

	Amount in Billions							Percentage of Funds						
	ACIR-Syracuse			OMB Catalog				ACIR-Syracuse*			OMB Catalog**			
	Project	Formula	Total	Project	Formula	Un	Total	Project	Formula	Total	Project	Formula	Un	Total
No match	\$2.21	\$ 2.52	\$ 4.73	\$ 7.86	\$ 8.70	\$ 0.02	\$16.58	6.9%	7.8%	14.7%	11.0%	12.2%	0.0%	23.2%
Cost-shared				3.69	0.72	0.0	4.41				5.2	1.0	0.0	6.2
Low match	4.61	21.00	25.61	10.40	22.82	14.51	47.72	14.3	65.2	79.5	14.5	31.9	20.3	66.7
Fifty percent				1.08	0.66	0.05	1.79				1.5	0.9	0.1	2.5
High match	.64	1.13	1.77	0.07	0.24	0.01	0.32	2.0	3.5	5.5	0.1	0.3	0.0	0.4
Unclassified	.09	.02	0.11	0.62	0.05	0.0	0.67	0.3	0.1	0.3	0.9	0.1	0.0	0.9
TOTAL	\$7.54	\$24.66	\$32.21	\$23.72	\$33.20	\$14.60	\$71.51	23.4%	76.6%	100.0%	33.2%	46.4%	20.4%	100.0%

*FY 72 outlays.

**FY 76 obligations.

Un = unclassified.

Source: ACIR-Syracuse data from Advisory Commission on Intergovernmental Relations, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels and Wage Rates* (A-61), Washington, DC, U.S. Government Printing Office, 1977; OMB Catalog data based on OMB, *1976 Catalog of Federal Domestic Assistance*, Washington, DC, U.S. Government Printing Office.

Table V-6
Matching Requirements Associated with Project and Formula Grants

	OMB Catalog Data FY 1976		ACIR-Syracuse Data 1972		ACIR Data 1975		
	Percent of Programs		Percent of Classified Categories		Percent of Grants		
	Project	Formula	Project	Formula	Project	Project/Formula	Formula
No match	39.7%	50.0%	44.4%	21.1%	39.2%	33.3%	38.2%
Cost-shared	27.1	2.6			13.9	2.8	0.0
Low match	22.3	31.5	37.0	57.9	31.8	36.1	34.5
Fifty percent	7.4	13.2			9.5	22.2	20.9
High match	1.2	1.3	18.5	21.1	0.0	0.0	0.9
Variable match					0.3	2.8	5.5
Unclassified	2.5	1.3	1.9	5.3	5.4	2.8	1.0
TOTAL	100%	100%	100%	100%	100%	100%	100%

Source: ACIR tabulations; OMB Catalog data based on *1976 Catalog of Federal Domestic Assistance*; ACIR-Syracuse data based on Advisory Commission on Intergovernmental Relations, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels and Wage Rates* (A-61), Washington, DC, U.S. Government Printing Office, 1977.

compared with a little over one-fourth of all formula grant dollars, are in the no-match category. On the other hand over two-thirds of all formula grant dollars fall in the low-match category according to the OMB samples.

Attempts to assess the impact of matching and other effort-related provisions also need to take into account functional area. Not only may propensities to spend tax money for a certain function vary with different grant recipients, but also any given recipient may respond differently to the same matching requirement in different program areas. ACIR examined matching requirements for grant programs in different functional areas, using 12 budget function categories (*Table V-8*).

1. **National Defense (050).** The grant for Reserves and National Guard requires a low match. The other four grants for civil defense all require 50% matches.
2. **General Science, Space, and Technology (250).** The one grant under the function falls in the cost-shared category.
3. **Natural Resources, Environment, and Energy (300).** Of the 55 grants in this category, 28 or over 50% require low matches. Only three programs require no match at all. Another ten require a nonfederal share of at least 50%. Including eight grants

that require a 50% match, nearly one-third of the grants in this category require a nonfederal share of at least 50%.

4. **Agriculture (350).** Five of the eight grants in this category have matches of 50% or more.
5. **Commerce and Transportation (400).** Nearly two-thirds of the 51 grants in this area are in the low-match category. Only nine grants (17.6%) require no match.
6. **Regional and Community Development (450).** The pattern in regional and community development is very similar to that in commerce and transportation. Twenty-seven of 51 grants, or just over half, require low matches. Another 29.4% require no match. Only one-tenth of the grants require a 50% match.
7. **Education, Training, Employment, and Social Services (500).** Ninety-one of the 156 grants or 58.3% require no match. Another 25% are in the low-match category, while 8 grants are in the cost-shared category.
8. **Health (550).** Twenty-two of the 71 health grants have cost-shared provisions. Another 39.4% require no match.

Table V-7
**Matching Requirements Associated with
Project and Formula Grant Funds**

Match	OMB Catalog Data		ACIR-Syracuse Data	
	Project	Formula	Project	Formula
No match	33.1%	26.2%	29.3%	10.2%
Cost-shared	15.6	2.2	—	—
Low match	43.8	68.7	61.1	85.2
Fifty percent	4.6	2.0	—	—
High match	0.3	0.7	8.5	4.6
Variable match	—	—	—	—
Unclassified	2.6	0.2	1.2	0.1
TOTAL	100%	100%	100%	100%

Source: OMB Catalog data based on OMB, 1976, Catalog of Federal Domestic Assistance; ACIR-Syracuse data from Advisory Commission on Intergovernmental Relations, Federal Grants: Their Effects on State-Local Expenditures, Employment Levels and Wage Rates (A-61), Washington, DC, U.S. Government Printing Office, 1977.

Table V-8
Matching Composition of Major Budget Categories; Grants to State and Local Governments, FY 1975

	Number of Grants							Percentage Composition of Budget Categories								
	No Match	Cost-Shared Match	Low Match	50 Percent Match	High Match	Variable Match	Unclassified	TOTAL	No Match	Cost-Shared	Low Match	50 Percent Match	High Match	Variable Match	Unclassified	TOTAL
050—Defense	0	0	1	4	0	0	0	5	—	—	20.0%	80.0%	—	—	—	100%
250—Science and Technology	0	1	0	0	0	0	1	2	100%	—	—	—	—	—	—	100
300—Resources and Energy	5	2	28	19	0	0	1	55	9.1%	3.6	50.1	34.5	—	—	1.8%	100
350—Agriculture	3	0	0	5	0	0	0	8	37.5	0.0	0.0	62.5	—	—	—	100
400—Commerce and Transportation	9	2	33	5	1	0	1	51	17.6	3.9	64.7	9.8	2.0%	0.0%	2.0	100
450—Community and Regional Development	15	0	27	5	0	0	4	51	29.4	—	52.9	9.8	—	0.0	7.8	100
500—Education and Social Services	91	11	39	7	0	4	4	156	58.3	7.1	25.0	4.5	—	2.6	2.6	100
550—Health	28	22	7	6	0	2	6	71	39.4	31.0	9.9	8.5	0.0	2.8	8.5	100
600—Income Security	14	2	1	3	0	2	0	22	63.6	9.1	4.5	13.6	—	9.1	—	100
700—Veterans	0	0	2	3	0	0	1	6	38.5	7.7	53.8	—	—	—	16.7	100
750—Law Enforcement and Criminal Justice	5	1	7	0	0	0	0	13	0.0	33.3	—	—	—	—	—	100
800—General Government	0	1	0	2	0	0	0	3	0.0	33.3	—	66.7	—	—	—	100
TOTAL	170	42	145	59	1	8	17	442	38.5%	9.5%	32.8%	13.3%	0.2%	1.8%	3.8%	100

Source: ACIR staff tabulations.

9. **Income Security (600).** Nearly two-thirds of the 22 grants in income security require no match.
10. **Veterans (700).** Three of six grants require 50% matches; two require a low match.
11. **Law Enforcement and Criminal Justice (750).** Seven of 13 programs in this functional area require low matches. Another five programs involve no match.
12. **General Government (800).** This category includes one cost-shared and two 50% matching grants.

A few functional area comparisons stand out. The greatest incidence of higher matching requirements is in the natural resources, environment, and energy functions. Over one-third of all grants in this functional area require 50% nonfederal matches. Only five of 55 grants are in the no-match category. The function with the lowest matching requirements is education, training, employment, and social services. Nearly 60% of the grants in this area require no match while one-fourth require only a low match. The health functional area has an unusual number of no-match grants (39.4%), but it also has a large number of cost-shared programs (31.0%). Criminal justice and law enforcement grants are dominated by the low-match category, as are the commerce and transportation and the regional and community development functions. Commerce and transportation also is characterized by the near absence of no-match grants.

Examination of the functional subcategories within some of these functional areas provides further insights into the matching issue (see Appendix Table V-A2).

Natural Resources, Environment, and Energy (55 grants)

- **Water Resources and Power (301).** Five of seven grants in this category require 50% matches.
- **Conservation and Land Management (302).** Nine of 12 grants stipulate matches of 50% or more.

- **Recreational Resources (303).** Four of eight grants require low matches. Three have 50% matches.
- **Pollution Control and Abatement (304).** Nineteen or 82.6% of 23 grants are in the low-match category.

Natural resources, environment, and energy overall has a stronger pattern of high matching than any other functional category. The strength of the pattern derives, however, only from the two subfunctions of water resources and power and conservation and land management. Pollution abatement and control, for example, is strongly dominated by low-match requirements.

Commerce and Transportation (51 grants)

- **Ground Transportation (404) and Air Transportation (405).** Twenty-eight of 37 ground transportation grants and all three air transportation grants have low matches.

Community and Regional Development (51 grants)

- **Community Development (451).** Eight of 15 grants require low matches, while another four require no match.
- **Area and Regional Development (452).** Eighteen, or two-thirds, of 27 grants have low matches.
- **Disaster Relief and Insurance (453).** Seven of nine grants require no match, which is a logical reflection of the purpose of disaster assistance.

Education, Training, Employment, and Social Services (156 grants)

- **Elementary, Secondary, and Vocational Education (501).** Fifty-eight or about three-fourths of the 78 grants in this area do not require any nonfederal match. Most of the others are either in the low-match or cost-shared category. The high proportion of no-match grants is largely accounted for by emergency school aid, grants for federally effected areas, Indian education, and aid for

educationally deprived children.

- **Higher Education (502).** Six of nine grants here do not require matching. Three of the nine require low matches, and one requires a 50% match.
- **Research and General Education Aids (503).** Of a total of 13 grants, four require a 50% match and six have no match.
- **Training and Employment (504).** Over half of the 19 grants in this subcategory require no match; another one-third require a low match.
- **Social Services (506).** Nineteen or nearly 53% percent of 36 grants require a low match. Only nine do not have a nonfederal match.

The dominance of no-match grants in the education, training, employment, and social services functional area derives mostly from the pattern in the elementary and secondary education, higher education, and training and employment subfunctional areas. Social services grants tend toward higher matching requirements, but this category still is dominated by low matches.

Health (71 grants)

- **Health Care Services (551).** Eleven of 28 grants require no match, and another five are in the cost-shared category. Only two have matches of 50% or higher. Six grants are in the unclassified category because they have federal shares that decline over a period of years.
- **Health Research and Education (552).** Ten of 22 grants have cost-shared provisions. These types of negotiable matching arrangements are typical of research grants, especially those for which private recipients also are eligible. Another ten grants require no match.
- **Prevention and Control of Health Problems (553).** Thirteen of 19 grants either required no match or have cost-shared arrangements. Four grants have 50% matches.

Matching requirements also can be differentiated by recipient (*Table V-9*). Nearly 70% of grants to

states require cost-sharing arrangements, whereas 18 of 20 grants for which local governments (including school districts) are directly eligible have no matching requirements. Grants for which nongovernmental recipients and institutions of higher education are eligible are distinguished by the sizeable number of cost-shared grants. The great bulk of grants with nonfederal matches of 50% or more are grants to state governments.

TYPES OF MATCHES

Matching grants can be classified according to three sets of variables. They may be close-end or open-end grants, have a fixed ratio or variable match among recipients, and have the match fixed by statute or negotiation. Some matching grants also have "ratchet" provisions—i.e., the matching requirement increases over time.

Open-End vs. Close-End

In the case of an open-end matching grant, the federal government is committed to paying a fixed percentage of an indefinite total of program costs. The total federal dollar contribution to each state is determined entirely by a state's spending behavior. This type of grant is theoretically ideal for financing state-local programs characterized by benefit spillovers. Open-end grants are few in number but large in dollars. Public Assistance, Medicaid, and the National School Lunch programs accounted for \$19.7 billion or one-fourth of FY 1976 grant obli-

gations and nearly 60% of all FY 1976 formula grant obligations.¹⁰⁴

These open-end, or percentage reimbursement, grants often are classified as formula grants, but they are actually quite different. They do resemble formula grants insofar as they preclude competition among potential recipients, which is associated with project grants. Close-end formula grants eliminate competition by using a formula to determine allocations for each recipient, while open-end grants eliminate competition by their nature. In a completely open-end grant, the size of a state's grant is not influenced by other states' share but by actual state spending. The term "open-end formula grant" is a contradiction in terms, because there is no allocation formula, only a matching ratio.

These open-end reimbursement grants differ from close-end formula grants in yet another way. An open-end reimbursement grant establishes a pure cost-sharing arrangement—the federal government is committed to reimbursing the states for a certain percentage of a defined set of expenditures. Close-end formula grants, in contrast, are imperfect cost-sharing mechanisms. Only if the federal grant and the required nonfederal matching funds combine to equal total program costs does the matching ratio tell anything about the actual cost-sharing arrangement.

Most open-end grants, however, have some qualifications. For example in both the Public Assistance and Medicaid programs, a limit to the federal obligation per recipient is set. The open-end term applies only to the number of recipients the states put

Table V-9
Matching Requirements and Grant Recipients;
Grants to State and Local Governments, FY 1975

	No Match	Cost-shared	Low Match	50 Percent	High Match	Variable Match	Unclassified	Total
State	52	2	59	41	1	6	1 ^a	162
State-substate	20	7	21	10	0	0	3	61
Local	18	0	1	1	0	0	0	20
Mixed public-private								
higher education	80	33	64	7	0	2	13 ^b	199
TOTAL	170	42	145	59	1	8	17	442

^aIncludes one supplemental grant unclassified as to match.

^bIncludes two supplemental grants not classified as to match and six grants with declining federal shares.

Source: ACIR staff tabulations.

under the program—the size of the program ultimately is limited by the eligible population. The effect of the open-end arrangement is to remove some constraints on the number of eligible recipients. Of course states have limited budgets, and the arrangement does not necessarily guarantee that all those eligible will be included. Yet by a high percentage match of state expenditures per recipient up to a point (five-sixths of the first \$18 in Public Assistance), the federal government virtually ensures a minimum expenditure per recipient.

Another variation on the open-end model is the National School Lunch program. This grant program reimburses states for an open-ended number of meals at a predetermined flat sum for each meal served (not a fixed percentage of costs).

These types of grants have come to be associated with federal financial support of established, ongoing governmental activity, but they could stimulate new activity, especially in areas in which state or local governments have been inhibited because of unfavorable cost-benefit comparisons. Whether these comparisons directly reflect calculations of internal monetary costs and external benefits or reflect political considerations, an open-end percentage reimbursement grant can redress the imbalances and remove the inhibitions.

Assuming the cost-sharing arrangement is not made too favorable to state and/or local governments and costs eligible for reimbursement are clearly defined, the federal government should not have fiscal worries. Typically, however, Congress has chosen to protect the Treasury by modifying the open-end. For example although no ceiling exists on the total funds a state may receive for Public Assistance payments, a ceiling does exist on the federal obligation per recipient. Similarly the early grants for state and municipal marine schools were of the open-end type at the state level but limited to \$25,000 per institution.

Another difficulty with open-end grants is not really specific to open-end grants, but perhaps is magnified by them. The Public Welfare Amendments of 1962 required the states to provide social services to welfare recipients and authorized federal payment of 75% of the costs. Not only was this a very favorable cost-sharing arrangement for the states, but also the law did not clearly define what services and, consequently, what costs were eligible for reimbursement. The definition was left to the administrative regulatory process.¹⁰⁵ When a few states that were adept at justifying costs took ad-

vantage of the highly favorable matching, federal payments mushroomed from \$354 million in 1969 to \$1.69 billion in 1972.¹⁰⁶ Congress reacted by placing a \$2.5 billion ceiling on the program.

One lesson from the experience with open-end grants is that they tend to generate copious regulations and guidelines because of the need to define carefully what costs are eligible for reimbursement. The problem is likely to be magnified when large amounts of federal funds are involved and the program is politically sensitive. Public Assistance, with its \$7.5 billion in FY 1976 obligations and controversies over eligibility standards and welfare fraud, stands out as a classic example in this respect.

Fixed Ratio vs. Variable Ratio

A fixed matching ratio treats all recipient jurisdictions equally. A variable matching ratio allows Congress to treat recipient jurisdictions differentially, because of either variations in need or in ability to finance an adequate level of services.

Only a handful of grants (see *Table V-10*) actually vary the statutory matching ratio according to income. The federal share for public assistance grants under the *Social Security Act* ranges from 50% to 65%, depending on the relation of the state's per capita income to that of the U.S. average. The federal share for Medicaid similarly ranges between 50% and 83%. As shown by Appendix *Table V-A5*, no states qualify for the maximum federal reimbursement rate, while 13 states receive the minimum rate. The compensatory education grant authorized by Title I of the *Elementary and Secondary Education Act* has a formula that, in effect, varies the matching ratio according to fiscal effort. The Title I formula achieves this because the multiplier in that formula is based on a state's average per pupil expenditure.

Other grant programs give special consideration to applicants from poverty areas. The federal match for developmental disabilities grants, for example, is raised for urban or rural poverty areas; the same provision is found in vocational rehabilitation grants. Similarly the federal share in grants for the establishment and initial operation of emergency medical service systems can be raised for areas showing excessive need, while the federal share for health maintenance organization grants can be hiked for recipients in "medically underserved areas." The federal share for vocational education

grants for consumer and homemaking education is increased for recipients in economically depressed areas.

The matching requirement can be modified or waived in special cases. Matching requirements for economic development district operation assistance can be waived for "critical areas," and the Secretary of HEW may waive matching requirements for grants to local educational agencies for the Follow-Through program. Some programs permit supplemental grants to be used to increase the federal percentage of project costs.

A number of grants for the prevention and control of health problems, listed in Appendix Table V-A6, not only lower the matching requirement for poverty areas, but also vary the match over time. This arrangement is used for initial staffing grants in a number of areas, including community mental health clinics, facilities for alcoholism rehabilitation, mental health of children, and narcotic addiction and drug

abuse prevention and control. Matching requirements for Medicaid facilities sponsored by the Veterans Administration (VA) also increase over time but do not give special treatment to poverty areas.

Other grants, mostly for highways and airports, give more favorable matching conditions to public land states, the rationale being that states with unusually large portions of their land areas under federal jurisdiction or used for Indian reservations are in a poorer position to finance such public improvements.

Another tactic is to use differential matching ratios to encourage desired management and coordination practices. For example solid waste disposal planning grants require a higher match if only one municipality is involved, and Administration on Aging grants for area planning are raised from 75% to 90% of costs if the activity is part of a coordinated system.

Table V-10
Variable Matching Grants to State and Local Governments, FY 1975

Budget Function	Grant	Variable Factor	Federal Share
503	Public Library Program:		
	construction	income	33-66%
	library services	income	33-66%
506	Child Welfare: basic grants to States	income	33-66%
506	Vocational Rehabilitation and Other Rehabilitation services:		
	Special Federal Responsibilities: Rehabilitation Facilities Construction Grants	income	50-66%
551	Medical Assistance Programs (Medicaid)	income squared	50-83%
554	Community Mental Health Centers: construction	income	the lesser of the federal percentage and 66%
604	Aid to Families with Dependent Children: grants for payments to aid recipients	income squared	50-65% ^a
604	Child Nutrition Programs: School Lunch Food Assistance Programs	percent of income below	less than or equal to
		U.S. average	75%

^aStates participating in the Medicaid program have the option of using the Medicaid federal matching percentage for AFDC. Unlike the Public Assistance program, the Medicaid percentage applies to total cash payments, and places no maximum on average grants eligible for reimbursement. As of June 1, 1976, only Arizona did not participate in the Medicaid program. Despite this option, several states other than Arizona have chosen to use the Public Assistance percentage.

Source: ACIR staff tabulations.

Negotiable or Unspecified Matching Ratios

In many cases the legislation authorizing a grant does not specify a matching ratio but does stipulate that the granting agency require recipients to share the costs of the aided activity. This trait is very common among project grants, particularly the many Public Health Service research grants. About one of every four project grants listed in the 1976 *Catalog of Federal Domestic Assistance* is of this type, but these grants account for less than one-sixth of FY 1976 project grant obligations and only 6% of total project and formula FY 1976 grant obligations.¹⁰⁷

Soft Match

Often a grant recipient is given the option of fulfilling its matching obligation wholly or in part with inkind contributions. Little is known about the effect this allowance has on grant responses nor about how common such soft matches are. Federal Management Circular (FMC) 74-7 (also known as OMB Circular A-102), dated September 13, 1974, indicates that inkind matches are to be accepted unless otherwise statutorily prohibited and stipulates the conditions of their acceptance. Some Law Enforcement Assistance Administration (LEAA) grants and Social and Rehabilitation Service grants for social services specifically disallow inkind matches. The Title XX Social Services program prohibits the use of inkind contributions from private sources as matches. FMC 74-7 states:

Inkind contributions represent the value of noncash contributions provided by (1) the grantee, (2) other public agencies and institutions, and (3) private organizations and individuals. Inkind contributions may consist of charges for real property and equipment, and value of goods and services directly benefiting and specifically identifiable to the grant program. When authorized by federal legislation, property purchased with federal funds may be considered as grantees' inkind contributions.¹⁰⁸

The circular also details procedures for valuing inkind contributions from private organizations and individuals, including volunteer services, donated

materials and equipment, buildings, land, and use of space.¹⁰⁹

The issue of inkind versus cash matches should not be confused with the related issue of the allowability of indirect, as opposed to direct, costs. FMC 74-4, which deals with cost principles applicable to grants and contracts with state and local governments, describes indirect costs as "those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Grant recipients are subject to laws and regulations that limit the amount of indirect costs to be allowed."¹¹⁰

It is often asserted that there is no real difference between inkind and cash matches. Adherents of this view argue that whether a matching requirement is met with inkind contributions or with cash should make no difference because both represent commitments with a monetary value. The real issue is whether the costs represented by the inkind match are directly related to the aided project or program and whether they represent new expenditures. The same questions apply equally to cash matches. Others, however, have argued that inkind matches are too easily met to be meaningful and that they are subject to abuse. Requiring a budgeted cash match, they say, is more likely to result in a meaningful nonfederal financial commitment.

A 1975 ACIR survey asked state budget officers if they agreed or disagreed with the statement: "Inkind matching produces little or no actual contribution of state resources for the aided program." Fourteen respondents agreed, and 20 disagreed. Twenty budget officers agreed, and fifteen disagreed with the statement that: "Inkind or zero matching strengthens the discretionary power of the governor and administrators and weakens the legislature's control over the state budget and programming."¹¹¹

A General Services Administration (GSA) audit report on the implementation of FMC 74-7 reported that some grant recipients have had difficulty interpreting the grantor agency's requirements for the allowability of inkind contributions, resulting in delays in the closing of grant agreements.¹¹² In its survey of grant recipients, GSA found very few recipient problems with Attachment F on matching compared with other attachments of FMC 74-7.¹¹³

Inkind matches have received considerable attention in Congressional hearings in recent years. They have been attacked for creating administrative

red tape, yet have been sought by state and local governments. Actually representatives of state and local governments have favored no matching requirements, but when a match is unavoidable, they have argued strongly for the allowability of soft matches. The testimony of San Francisco Mayor Joseph Alioto on behalf of the National League of Cities-U.S. Conference of Mayors (NLC-USCM) during 1971 hearings on proposed community development block grant legislation is typical:

If given the option, we would prefer 100% federal funding. However, we recognize that Congress may wish to retain as much as a 10% local share under the program. If there is a requirement for a local share, we urge that HUD be authorized to continue accepting "inkind" activity in place of actual cash. While cities would be able to live with a small requirement which could be met by providing "inkind" services, a straight cash demand would be onerous.¹¹⁴

The implication of much of the testimony by local officials is that although inkind matches may present some bookkeeping complexities, they are a financial bargain compared to cash requirements. On the other hand former HUD Secretary Robert C. Weaver, while supporting the principle of a non-federal cash contribution, argued during the 1971 hearings that the experience with noncash credits in urban renewal was "eloquent documentation of the case for local cash contributions."¹¹⁵ HUD Secretary George Romney reinforced this interpretation in the 1972 House hearings.

... having had a little experience with this noncash credit procedure as a governor, I just want to tell you it is a lot of baloney. Afterall, almost any community and almost any state can round up items to qualify for noncash credits without doing anything more than they are going to do anyway. Consequently, it means nothing except a very complicated procedure for the federal department that has to try to keep track of all this and of all the procedures that get built into it.¹¹⁶

HUD Secretary James Lynn made the same point during 1973 hearings. Lynn told one Senator that the matching requirements in HUD programs had be-

come nothing but "a red tape exercise," and that "practically anything qualifies for it." Attorney General Elliot Richardson also argued against inkind matches in his testimony on the LEAA criminal justice block grant during 1973 hearings:

Proposed elimination of "soft match" is obviously a step in the right direction, for there have been a number of serious and recurring problems with it . . . soft matching really adds nothing to the basic resources of state and local criminal justice agencies.¹¹⁷

The House committee's report reflected Richardson's testimony when it stated that the elimination of noncash matches in the LEAA block grant program would end procedures that "are only causes of imaginative bookkeeping by recipients and nightmarish monitoring problems for LEAA charged with ensuring compliance."¹¹⁸

A spokesman for the NLC-USCM proposed that short of 100% federal financing, community development block grant legislation should allow recipient communities to (1) carry forward unused noncash credits from urban renewal programs, (2) pool noncash credits for two or three years, and (3) count public facilities, such as schools, libraries, hospitals, and parking lots toward meeting the local share requirements.¹¹⁹ HUD Secretary George Romney, in response, acknowledged the appropriateness of matching in narrow-purpose categorical programs, but warned that the NLC-USCM proposals would be the cause of "troublesome problems" in the case of a block grant.¹²⁰

MAINTENANCE-OF-EFFORT PROVISIONS

Grants can either supplement state-local expenditures for an aided activity or substitute for existing state-local effort on behalf of the aided activity. This situation is true for narrow categorical grants as well as for broad grants such as GRS. In the case of GRS, federal funds can either increase total state-local spending or finance a reduction in state-local effort via a tax cut. In considering any grant, Congress thus must first consider the possibility that a grant will be partially or totally substitutive for state or local funds, unless maintenance of a certain degree of nonfederal effort is made a condition of grant receipt.

Maintenance-of-effort and nonsubstitution requirements are integral parts of any grant that is not totally unconditional. Such requirements are particularly important in narrowly prescribed categorical programs that might tempt recipients to use grant funds as a substitution for own-source funds, thereby releasing funds for other nonaided purposes. They also are important in block grants where the functional terrain is broad and often not clearly defined, making fungibility even easier.

Maintenance-of-effort requirements and matching ratios should be considered together. Without an effective maintenance-of-effort requirement, a categorical grant with no matching requirements likely will result in reduced spending from recipients' own funds for the aided function, because such a grant serves as a general revenue supplement. A maintenance-of-effort requirement, in effect, requires the recipient government to match the federal grant with a sum at least equal to the recipient's previous expenditure for the aided activity. The difference is that the match is a function of previous effort and not of program cost. Maintenance-of-effort requirements limit the recipient government's freedom to reallocate its budget, even in cases when productivity makes savings possible.

The case of a no-match grant illustrates how a maintenance-of-effort requirement is intended to work. If a government receives a gift of \$100, it generally will not spend all of it on one thing. Instead it will spend the money according to its politically determined preferences. Only if the recipient placed extremely high value on an increase in the aided function would it spend anything approaching all of the money on the one function. A maintenance-of-effort provision requires the recipient to spend all the new revenue for the aided purpose. In short by forcing the recipient to spend the whole grant on one function, the requirement pushes the recipient to a lower level of satisfaction than otherwise could be obtained.¹²¹

Maintenance-of-effort requirements, however, may not achieve their goals so simply. If the recipient experiences an increase in its own revenues at the same time or soon after receiving the grant, the maintenance-of-effort requirement may be rendered meaningless. The recipient government can use the increase in its own-source funds to satisfy the nonsubstitution requirement and to increase spending for nonaided activities (including tax relief) without falling to a lower level of satisfaction. Given the tendency for revenue from other sources to in-

crease in the period following the receipt of federal grant funds, the recipient's allocation of spending in the long run is not likely to differ from what would exist under a system of more general aid.¹²²

ACIR tabulations indicate that at least 20% of all categorical grants and at least 40% of all formula grants funded in FY 1976 had statutory maintenance-of effort or nonsupplant requirements. Only about 7% of all project grants, however, had such statutory requirements. These requirements may be deemed less necessary in project grants, because the federal agency can give closer scrutiny to specific applications and consider recipient effort in the process of review and approval. Some federal agencies also condition grant approval on nonsupplant or maintenance-of-effort requirements, even though such requirements are not in the grant legislation.

At least two types of requirements are commonly used. Some maintenance-of-effort provisions specifically require the recipient to maintain the level of spending that existed as of a certain date, or to spend no less of its own funds than were spent in a previous fiscal year. Other provisions require that the recipient supplement, and not supplant, the level of funds available to the grantee from nonfederal sources. The difference is that supplanting deals with what the grantee would have spent from nonfederal sources in the absence of the federal aid. The latter type of requirement allows potentially much more flexibility of interpretation, but may be more difficult to enforce.

Some maintenance-of-effort provisions require only that fiscal effort be maintained, with no specific reference to expenditure levels. Titles I and III of the *Elementary and Secondary Education Act* (ESEA) are examples of this type of requirement. Other effort provisions are more specific and require a literal maintenance of pregnant expenditure levels from nonfederal funds, e.g., Title V of ESEA.

In August 1976 the Office of General Counsel, HEW, was asked to investigate whether, in the presence of a maintenance-of-effort requirement, a state has the option of reducing its financial contributions to a program (i.e., because of reduced revenues) and suffering only a pro rata reduction in the federal share.¹²³ In response the Office of General Counsel identified three types of situations in which maintenance-of-effort provisions might be reinterpreted:

- a. a state's tax base is reduced because of "economic conditions," with subsequent

reductions in revenues and expenditures for the aided activity, in this case education;

b. a rise in unemployment or other circumstances necessitate increases in other expenditures (i.e., welfare), leaving less money for education; or

c. rising costs for other state services, with subsequent pressure for current budget levels for education.¹²⁴

Based on a search of the legislative history, the Office of General Counsel determined that:

The maintenance of effort requirements were generally designed to ensure that federal education grantees do not shift to the federal government what Congress has considered to be their ongoing financial responsibilities to their educational programs, and further, to help ensure that federal assistance serve a supplemental rather than a basic educational function.¹²⁵

It was determined that neither this statutorily specified maintenance-of-effort requirement nor the broader nonsupplanting provisions could be waived by the Secretary. Only in the case of a fiscal effort requirement is flexibility possible in the event of mitigating economic conditions. The investigation found no statutory definition of "fiscal effort," and the legislative histories were not helpful. They argued that fiscal effort could be construed as a function of tax effort, in which case changes in a grantee's tax base might warrant flexible application of effort provisions.

ESEA's Title I and Part B of the *Vocational Education Act* (VEA) allow for a 5% deviance before the requirement is invoked, but no grounds were found to allow pro rata reductions. The regulations, however, do provide for an exception when unusual events or circumstances occur that could not have been fully anticipated or reasonably compensated for by the grantee—i.e., removal of a large segment of property from the tax rolls (ESEA I) and large or short-term contributions of money from outside sources in the base year, or unusually large expenditures for long-term purposes, such as construction, in the base year (VEA). But whether revenue decreases due to economic conditions would qualify as an "unusual event" is unclear.

The Office of General Counsel also considered whether the "unusual event" standard should be retained or be replaced by more general definition of "fiscal effort." It concluded in favor of an across-the-board Congressional resolution, in place of "regulation on a sporadic, limited, and piecemeal fashion."¹²⁶

Nonsubstitution and Equalization

In at least one case maintenance-of-effort requirements have been asserted to perpetuate interstate disparities in program levels. An amendment to the Supplemental Security Income (SSI) Amendments of 1976 was designed to require cost-of-living increases to be passed through in their entirety to SSI recipients and not to be a substitution for state contributions. A sponsor of the amendment argued that because a majority of states chose to reduce the size of state supplemental payments by the amount of the federal increase, close to one million SSI recipients got no cost-of-living increase.¹²⁷ Others argued that such a maintenance-of-effort requirement would perpetuate interstate disparities that SSI was designed to ameliorate, and penalize those states that had shown generosity to the poor in the past.¹²⁸

Another type of effort requirement is the Title I, ESEA, comparability requirement, which deals with the composition of the effort of a recipient local education agency rather than simply the size of its aggregate effort. The comparability provision requires local education agencies to document that state-local expenditures for Title I and non-Title I schools before the receipt of federal aid were comparable, thus making Title I compensatory education funds truly supplemental to ordinary educational financing efforts.¹²⁹ The requirement is satisfied when the children enrolled per instructional staff in Title I schools does not exceed 105% of the ratio in nontarget schools, and when per pupil expenditure and expenditures per pupil for textbooks, library resources, and other materials in target schools is at least 95% of such expenditure per child in non-Title I schools.¹³⁰

ALLOCATION FORMULAS AND COST SHARING

Some formulas have effort-based factors that indirectly have some similar effects as matching requirements. Perhaps the best example of an effort-

based allocational formula is that for distributing compensatory education funds under Title I of ESEA. Each state receives an allotment based on its eligible student population and its average per pupil expenditure. Thus high-spending states receive a larger amount per pupil than low-spending states. One result is to compensate for the higher costs of compensatory education in some states, but another is to indirectly vary the federal share of costs.

Other formula grants similarly reflect state-local expenditures in their allocational formula. Some forestry management, research, and fire control grants, as well as grants for state boating safety programs and special milk programs for child nutrition, have allocation formulas that reflect the level of recipient expenditures for the aided activity. Moreover several other education grant formulas use per pupil expenditures as in Title I.

MATCHING AND GRANT IMPACT

The relationship, if any, between matching provisions and the stimulative impact of grants has been of growing interest. Two reasons for this concern stand out. First, if grants are intended to stimulate state and/or local adoption of new activities deemed in the national interest, knowledge of which grants are most effective in this regard is important. Second, the demands placed on state and local governments by matching requirements has been of growing concern. This concern reflects worry about both the absolute financial demand placed on state-local budgets and the manner in which the price effects of various matching ratios might distort state-local budget decisions.

Although federal aid has grown to the point that it represents nearly one-fourth of total state-local expenditures, how much money state and local governments put up as matching shares is less clear.¹³¹ The Office of Management and Budget (OMB), in both its FY 1974 and FY 1977 budget analyses, estimated that state and local governments use about 10% of their own revenues to match federal grant allotments. OMB also has estimated that state and local governments as a whole provide \$1 in matching funds for every \$3 in federal aid.¹³² OMB suggested that "the elimination of most matching requirements for the programs replaced by special revenue sharing will reduce this, and free state and local resources for high priority use as state and local governments choose."¹³³

In 1962 when federal grants accounted for only about 15% of total state-local expenditures, estimates were made that state and local governments used 7.6% of their total tax collections and 6.1% of general expenditures from their own sources, or \$3 billion to match \$7 billion in federal grants. The 12 lowest per capita income states at that time used from 9.7% to 17.9% of their tax collections to match federal grants, while nine of the 12 highest income states used less than 7.6% of their tax collections. Delaware's matching contribution amounted to \$4.54 per \$1,000 in personal income, while Mississippi's contribution was \$14.78.¹³⁴

A more recent ACIR survey indicates a somewhat different pattern for FY 1974. Twenty-five states reported matching shares, as a percentage of federal grant receipts, ranging from 11.7% in Idaho to 67.9% in Michigan (mean-43.1%, median-34.6%).¹³⁵ As shown in Appendix *Table V-A7*, states reporting the highest matching contributions as a percent of federal funds received tended to be states in which Public Assistance grants are an unusually large percentage of total federal grants received. A recent Kansas study found that the federal share of its assisted programs in FY 1976 was 65.5%.¹³⁶

Critics have long argued that grants with matching requirements distort state and local budget decisions in favor of aided services, thus wasting public funds. Opponents of matching argue that lowering or eliminating matching requirements would result in less state-local budget distortion and less waste of public funds. This situation, however, is not so obvious if one contrasts the effects of no-, low-, and high-match grants on the costs recipients must assume for aided activities. A no-match grant lowers to zero the effective price facing the recipient, and a low-match grant results in a lower effective price to the grantee than does a high-match grant. Logically; at least, the greater danger of distortion and waste of resources occurs when the cost-sharing principle is more generous to the recipient government than is justified by the degree of spillover or national interest characterizing the aided state or local government activity.¹³⁷ If the price facing the unit of government for the additional output of the aided activity is too low, it may shift more own-source funds to the aided activity than is efficient.

Thus federal funds with no matching requirements may lure state or local governments into programs that they may not be able to afford when the federal money is no longer available. One commentator

has asserted that such no-match grants in the Public Works program prompted "a myriad of projects that never could have stood on their own."¹³⁸

Those who wish to help out hard-pressed state and local governments might well ask if some current matching requirements are too low, thus distorting the prices facing hard-pressed governments and luring them into unwise budget decisions. If the required match is too high, some high-need recipients may be discouraged from or be unable to participate. The more efficient tactic, if this is the case, is to supplement and equalize state and local fiscal capacity through unconditional no-match grants. In the long run such an approach might do more to help those governmental units that apparently have difficulty meeting their matching obligations.

SUBSTITUTION AND STIMULATION

If federal grants-in-aid increasingly are designed to achieve particular federal objectives, consideration of those objectives is important. Literature exists that estimates and discusses, in both theoretical and empirical terms, the stimulative effect of federal grants on state and local governments.¹³⁹ Too often, however, what is stimulated and how is unclear.

Although assessment is easiest of the stimulation issue in terms of the grant impact on state and local expenditures, it is not always clear that expenditures per se, and not some measure of program output or success, is the intended objective. In the belief that some measure of program impact may be the more meaningful object of inquiry, some researchers have broken the stimulation issue into component parts, looking at the relation between federal aid and (1) public employee wage levels, and (2) numbers of state and local employees. Some have hypothesized that changes in employment levels are more directly related to program output than are changes in wage levels. One such researcher found that non-aid revenue increases were stimulative of employment (likely to encourage increased program output), while aid-associated revenue increases were stimulative of wages (possibly benefiting employees more than program consumers).¹⁴⁰ The recent ACIR-supported Syracuse study took a similar tack, but found federal aid mainly stimulative of employment.

STIMULATION

A grant is stimulative if its effect is to increase grantees' expenditures for the aided function over

and above normal levels.¹⁴¹

Stimulation can occur in different ways. A no-match grant may be most stimulative of a state-local activity when no such activity previously existed. Yet such a grant does not guarantee any new recipient fiscal commitment. Matching and maintenance-of-effort requirements may help stimulate state-local fiscal commitment. A high-match requirement might be expected to stimulate the most state-local spending, but potential recipients may avoid a program if the match is too high. A low-match requirement might be more stimulative, because it lowers the price for the aided activity. If the aid is for a function in which the grantee already has been engaged, however, and no maintenance-of-effort requirement exists under the match, the grantee might actually decrease its own spending for the function and maintain the same output.

Although stimulation is often measured fiscally, it is the result of both fiscal and political factors. A grant lowers the cost to the recipient of increasing output of the aided activity, but the exact response of a recipient to this price reduction logically and practically depends on its political tastes. The grant may stimulate higher local effort for the aided function because the inflow of federal money has altered the political conditions under which state or local priorities are budgeted. Thus increased federal support for the aided function may serve to draw attention to an otherwise unnoticed activity and popularize it, or may actually strengthen a political lobby in support of spending for the aided function. This type of political dynamic may reinforce the stimulation that might be expected solely as a result of a grant's fiscal characteristics.

If a grant increases the recipient's spending for the aided function, but only by the amount of the grant, it can be termed additive, i.e., recipient own-source spending for the aided functions remains the same. Wright argues that conditional grants without matching requirements are the most likely additive grants.¹⁴² This situation is most likely to be true in the presence of a maintenance-of-effort or nonsubstitution requirement. A conditional grant can only be spent for specified purposes, and a maintenance-of-effort requirement is meant to guarantee that the funds are not used to substitute for recipient effort, thus making the grant additive.

SUBSTITUTION

A grant has a substitutive effect when the recipi-

ent is able to increase total spending for other non-aided functions because of the new income from the federal aid, while increasing total spending for the aided function in an amount less than the grant. Recipient spending from its own sources for the aided activity, therefore, declines. This situation will very likely be the case with grants of the nonmatching variety with no maintenance-of-effort requirements. Although most federal grants have some matching and/or maintenance-of-effort requirements, many studies have documented the substitutability of funds for even these grant programs. Such requirements are not easily enforced in the context of the current federal system, with its multiple intergovernmental fiscal transfers, independent revenue sources, and expanding range of public services. Much, however, still depends upon the utility grant recipients place on various spending alternatives—aided functions versus nonaided functions, public sector spending versus private sector spending (via tax cuts), etc.¹⁴³

Categorical Grant vs. General Revenue Sharing

To be concerned with stimulation is to be concerned with substitution of federal aid for own-source spending, i.e., to be concerned with categories of aid. These concepts are most clear when the intended scope of federal aid is clearly defined, as is generally the case with narrow categorical grants or with no strings GRS.

The Brookings Institution has investigated the substitution issue in the case of GRS. Richard Nathan reports that in FY 1974, as opposed to FY 1973, a significant decline occurred in local government use of shared revenue for new expenditures. "The reason most commonly given for this decline is that rising prices and shrinking revenues have required the greater use of shared revenue for what we have classified as substitution purposes—balancing the budget, holding down taxes, meeting increased personnel and other costs."¹⁴⁴ Large, fiscally pressured urban governments were most likely to use revenue sharing funds for these substitutive purposes. Thus, as Nathan noted, those supporting revenue sharing as a means of fiscal relief should be pleased, while for those supporting it as a source of new revenue for meeting social needs and innovation, the results are less clear.

In the particular area of law enforcement, Brookings researchers compared officially reported ex-

penditures of shared revenue with the findings of field researchers and found that only one-sixth of the revenue sharing funds state and local governments reported spending for this purpose actually represented new spending. The reported differences were greatest for fiscally pressured units and those in the northeast.¹⁴⁵ This finding is revealing of the difficulty in probing substitution.

The issue is very much an empirical one. We need to inquire about the extent to which these official "attributions" of the use of shared revenue for public safety involve new or additional spending for public safety. Or are they . . . essentially accounting decisions made for political or bookkeeping reasons?¹⁴⁷

The Brookings researchers expressed an expectation that the block grant funds would have less of a substitution effect than was the case with GRS, because they are administered essentially on a project-by-project basis to local governments.¹⁴⁸ Nathan is quick to point out, however, that categorical grants sometimes offer similar opportunities for substitution.

The fact is, however, that although considerable empirical research indicates that federal grants are rarely totally additive to state and/or local expenditure for the aided activity, neither are they totally substitutive. Significant forces are at work against substitution. First, maintenance-of-effort and nonsubstitution requirements along with matching requirements exist. These conditions may not always be 100% enforceable, but in most instances they can be expected to have some effect. Secondly, political pressures exist against substitution, especially in the case of narrow categorical grants where the purpose of aid is more clearly defined. State and local counterparts of those interests that convince the Congress of need for categorical grant treatment also will have an interest in how grant recipients use the money. The success of such watchdog groups enforcing maintenance-of-effort and non-substitution requirements at the state or local level depends on their organizational strength at sub-national levels.

Precise knowledge of the fiscal effects of particular types of federal grants-in-aid clearly is limited. Nathan points out that the levels of substitution and stimulation probably vary with different programs. This area, he adds, is one in which policy

analysts need to help policymakers.¹⁴⁹ Nathan did advise the Revenue Sharing Subcommittee that new programs have more spending effects than old programs, and that project grants—particularly those with matching requirements—are the most stimulative. Given the fact that grants become less stimulative and more supportive over time, he argued for a shift away from narrow categorical grants.

We need to recognize, in addition, that over the years as grants become less stimulative and functions more established, people who are particularly concerned about giving a significant measure of discretion to state and local governments may feel that these grants can be changed into more general kinds of grant instruments, such as block grants, special revenue sharing, or ultimately perhaps also general revenue sharing.¹⁵⁰

Matching and Stimulation

The recent ACIR-commissioned Syracuse study investigated the relationship between different levels of matching requirements and stimulation. This cross-section study found associations between different federal grant matching ratios, as well as different grant types, and overall state and local wage and employment levels. Some critics note that such studies do not examine the relationship between grants and state-local spending in different functional areas, and hypothesize that the differing levels of stimulation may be as much a result of the functional area as of the matching ratio.

These critics view state and local governments essentially as rational consumers who have different demands for different types of government activity. A state or local government might be expected to respond differently to the stimulus of a 50-50 matching grant for social services than to the stimulus of a similar 50-50 matching grant for law enforcement activities. Similarly different grant recipients would be expected to respond differently to the same grant, depending on each recipient's tastes. Small cities may respond differently than large cities, and strong union cities may respond differently to construction grants than weak labor cities. Grants may be more stimulative of wages and less stimulative of employment in cities with strong municipal unions. Wealthy cities may have different response patterns than poorer cities.

The same observers stress the significance of the makeup of the low-match and high-match categories for interpreting the associations that were formed between matching and stimulation. When the program contents of the matching categories used in the ACIR-sponsored Syracuse study are examined, several potentially important patterns emerge.

- Of 14 grant categories labelled "high" (\$1.7 billion), 55% of the funds are accounted for by child nutrition programs. These programs account for 87% of all formula high matches.
- Four programs in the Department of Agriculture account for over 63% of all high matches.
- Public Assistance and Food Stamps account for 57% of all low-match program categories (formula or project). These two programs account for nearly 70% of all formula low matches in terms of funds expended. Food Stamps, Public Assistance, and the Highway Trust Fund amount to 91% of all formula low matches.
- In FY 1972 three urban poverty programs accounted for over 36% of all low-match project grants—Model Cities, Community Action, and Neighborhood Youth Corps. Urban Renewal is another 26%.
- Elementary and secondary education programs and aid to federally impacted areas account for over 98% of all formula no-match categories. These two programs account for over 52% of all expenditures from all no-match program categories.

Thus the study's findings possibly may reflect differing degrees of stimulation associated with different functional areas. This situation points up the need to include political variables in any model attempting to predict or explain grant response. In fact a number of variables, other than the matching ratio, may impinge on stimulation. These include:

- functional areas,
- political preference/political culture,
- method: project/formula,
- size of grant,

- scope of local initiative: block versus categorical,
- maintenance-of-effort provisions, and
- previous level of recipient government activity.

The political dimensions of recipients' policy processes clearly cannot be ignored. If state and local decisionmakers (and their constituents) valued all potential government activity equally, predicting their responses to federal assistance would be relatively easy. The federal government thus could use matching grants and GRS to influence state and local budgets. But reality is more complicated. Good reason exists to believe that state and local governments have varying preferences for different program areas and will respond differently to matching requirements of grants for varying purposes.

When the federal government uses a grant to change the cost to a state or local government for an aided activity or function, a political judgment has been made at the national level to override local values and preferences. Yet the federal government cannot expect to achieve its objectives if the recipient government is indifferent to the aided activity or function. In economic parlance both the price elasticity and income elasticity of demand at the state and local level for the aided activity must be substantially greater than zero.¹⁵¹ Thus the political tastes of recipient units for a particular type of government activity must be weighed when judging the likely impact of a matching grant.

Although many have presumed that the main purpose of early grants-in-aid was to stimulate either new or increased state-local activity, one political scientist argued that little evidence existed that federal aid led states to spend money for programs of low constituent priority. He noted that the greatest increases in state spending up to that time had been in fields such as education and mental hospitals for which federal aid was least available.¹⁵² In areas where state expenditures were relatively low, such as children's health and welfare services, federal grants had not induced much increased effort. In contrast states spent far more than necessary to match federal grants for more popular activities, such as highway construction and vocational education. He noted that in fields where excessive expenditure allegedly was caused by federal aid, local support was strongest for large expenditures and state-supported programs had long preceded the federal grants.

Some empirical and theoretical studies dealing with the stimulation significance of matching

have been made.¹⁵³ Edward Gramlich estimated the expenditure response to different types of grant forms. He found that a dollar increment of an unconditional block grant was associated with a \$0.28 increase in expenditures, while the same increment in the form of a matching grant was associated with a \$1.12 increase in expenditures.¹⁵⁴ These findings suggest a high degree of substitution in the case of no-match block grants but a mild stimulative impact for conditional matching grants.

Another researcher attempted to discover whether certain matching grant programs have stimulative or substitution effects.¹⁵⁵ He concluded that for most states, the ABC Highway matching grants program generated little incentive to alter the size of their highway expenditures. Such a close-end matching grant would be an incentive only if a state would have spent less than the amount necessary to match in the absence of the grant. Such was the case, he found, in only nine states.

A Rand Corporation study compared the effects of replacing traditional matching grants for highway construction with nonmatching grants. The report's findings suggest that although traditional highway matching grants are mildly stimulative, nonmatching grants would be in part substitutive.¹⁵⁶ In the period 1959-70 each dollar of federal aid was associated at the margin with roughly a \$1.03 increase in state expenditures for highway construction. The increase was less than the amount implied by the statutory matching ratios (the weighted average of which was \$1.34). Yet estimations were made that nonmatching grants would actually be substitutive, with states reducing own-source spending by half.

The recent ACIR-commissioned Syracuse study disaggregated total grant funds into subgroupings characterized by no-match, high-match, or low-match requirements, and separately estimated the relation between each and wage rates, employment levels, and welfare expenditures.¹⁵⁷ This approach has the merit of recognizing the expected differential price effects of different matching ratios.

The findings generally suggest that grants with high-match requirements are most stimulative, while no-match grants are more stimulative than low-match grants. Project, high-match, and no-match grants were actually associated with decreases in wage rates, however. High-match grants were much more depressant of wage rates than were no-match grants, but the results generally were not statistically significant.

In the case of employment levels, the relationships were more consistent and almost always statistically significant. Formula grants were twice as stimulative as project grants. High-match grants were by far the most stimulative, but no-match grants were more stimulative than low-match grants. Excluding construction grants in all cases resulted in even stronger findings of stimulation.

A dollar increment in high-match grants was found to be associated with \$13.34 in state-local expenditure, while a one dollar increment in no-match grants again was more stimulative than low-match grants (\$1.39 versus \$1.20). When construction grants were excluded, low-match grants became more stimulative than no-match grants.

The analysis made herein suggests that some of the statistical findings may be better understood after a closer examination of the composition of the grant system and of the conditions under which grants are proffered and received. Because recipient tastes for the aided activity, as well as matching ratios, may affect the stimulative impact of a grant, consideration of whether certain types of matching requirements are characteristic of different functional areas is important.

Evidence on Substitution

Some studies bear directly on the degree to which certain grant funds have been used to substitute for state or local expenditures, despite the presence of nonsubstitution requirements. A National Planning Association (NPA) study of the 1971 *Emergency Employment Act* (EEA) public employment program (PEP) concluded that a high degree of substitution existed.¹⁵⁸ The study determined that 46% of the jobs funded by High Impact Demonstrations would, through normal expansion, have been financed from state and local sources in the absence of federal assistance by October 1972. The 4.3% increase in government employment initially financed by PEP turned out to be only a net gain of 2.3% within a year of launching the program.

The act's maintenance-of-effort requirement stipulated that the assistance "result in an increase in employment opportunities over those which would otherwise be available," and not "result in the substitution of federal for other funds in connection with work that would otherwise be performed."¹⁵⁹ This statement can be interpreted to require either maintenance of the nonfederal effort that prevailed prior to availability of federal funds, or that non-

federal effort be maintained at the level that would prevail in the absence of the program.¹⁶⁰

The first distinction is clearer. The second is more ambiguous, because it could be applied flexibly not only to account for economic difficulties, but also to hold recipients responsible for any "natural growth" that might have occurred without PEP. The NPA investigators held the second interpretation to be more appropriate, because the primary objective of PEP was to alleviate cyclical unemployment by creating new jobs. The administrative regulations, however, leaned toward the first interpretation.¹⁶¹

The NPA study also was alert to the temporal dimension of the substitution process:

Substitution is likely to occur in direct relation to the importance and value of the PEP-funded jobs. . . . The more important the job, the more likely it was to have been funded eventually from state-local sources. The availability of federal funds simply made it possible for the job to be filled earlier than it otherwise could have been. This means that, temporarily, PEP created a new job.¹⁶²

By comparing the actual public employment increase in the period after the receipt of the grants with the projected employment trends in the absence of PEP, the investigators were able to conclude that substitution, although not total, did increase over the time period studied.

In a probe of the same problem, Johnson and Tomola estimated that the creation of 100 federally subsidized jobs was associated with a decrease of 29 nonsubsidized state and local jobs; i.e., the federal aid only stimulated 71 new jobs. After two years, however, this net increment was estimated to erode to 33 new jobs.¹⁶³ Michael Wiseman argues that local officials are most diligent about nonsubstitution in the early stages, and that displacement probably "creeps in later—after the heat is off."¹⁶⁴ He also argues that although federally subsidized jobs (i.e., CETA and EEA jobs) may not be a significant increment to total state and local employment, they are substantial when compared to the normal turnover rate during the period in which they are filled. As a result state and local governments may be slower to fill unsubsidized vacancies. Passage of time allows a subtle reallocation of job duties so that the "new" jobs may become permanent replacements

of the old unsubsidized jobs.¹⁶⁵

Studies such as these, which empirically probe the substitution issue, are necessary to determine if different types of grant programs in different functional areas elicit different kinds of recipient responses. In contrast the recent ACIR-sponsored Syracuse study, with its aggregative analysis of grant stimulation, reflects a belief that all aid is fungible. Both approaches have their merits. One interpretation of the proliferation of narrow categorical grant programs is that Congress believes that all grant money is not fungible. Of course Congress may realize that grant funds may be fungible but persists in the creation of narrow categorical programs for symbolic political purposes.

A basic theme herein has been that a number of factors may influence whether a particular grant program is stimulative or substitutive. The paramount factor is a recipient's taste for the aided activity vis-a-vis other competing uses of funds. Other factors may be the size and servicing range of the recipient government, the number of grant programs in which it participates, the timing and sizes of the grant relative to ongoing recipient spending for the aided activity, the type of grant, and the grant's fiscal requirements. The motivation for using federal funds to substitute for nonfederal funds is mostly one of tastes and recipients' fiscal and servicing conditions. The size of the grant, the number of grant programs, and the presence or absence of political pressure, on the other hand, may be what makes substitution practical.

CONCLUSIONS

The appropriateness of conditional grants, and matching grants in particular, in the American federal arrangement can be highlighted by a comparison to grants in the British system. Sidney Webb in 1920 described a grant as a payment to a local government authority, "in order to assist that authority in execution of some or all of its statutory duties."¹⁶⁶ Such a grant is akin to our notion of revenue sharing, but the context is different. The Parliament defines the duties of local governments and may enlarge or reduce them as it pleases. In the American federal arrangement, Congress has no such power to dictate the activities of state and local governments. The conditional grant, therefore, is a necessary inducement to move state and local governments to do things they would not otherwise do.¹⁶⁷

If federal objectives were limited to the quality of the overall tax structure and the equalization and/or expansion of state-local fiscal resources, either revenue sharing or broadly conceived block grants would not only be superior, but also all that was necessary. However if the nation's will, as formulated by Congress, is to maximize total spending for a particular activity or class of activities, appropriately designed categorical grants are both necessary and superior.

Congressional will, in fact, usually has been expressed in the form of narrow categorical grants. Compared to other federal systems (e.g., Canada and Australia), conditional grants have overshadowed both general revenue sharing and equalization grants in the American system.¹⁶⁸ Consequently Congress has had to grapple with allocational formulas and matching requirements in nearly every new area of federal aid.

Those who shape federal grant legislation in this country should be alert to the policy consequences of allocation and matching formulas.¹⁶⁹ Among other things conditional grants may lower the cost of aided activities to state and local governments, shift the focus of priority-setting upward to the federal level, restrict the discretion of state and local officials through grant strings, and restructure the political balance of interest groups and their representatives at the state or local level.¹⁷⁰

Developing a grant design that is sensitive to policy consequences requires knowledge of how different types of grants impact state and local decisions. Economists, political scientists, and others have produced fragments of this ideal knowledge base. This chapter has attempted to bring some of these fragments together in a manner that highlights their policy relevance. Several grant design features, such as matching, maintenance-of-effort requirements, and effort-based formulas, have been discussed in terms of their significance for the division of effort between the federal government, on the one hand, and the states and localities, on the other. Certain general conclusions can be drawn.

First, federal grants are stimulative to some degree. Particular statistical findings, however, are difficult to interpret because the degree to which matching requirements, as compared to more political factors, are responsible is usually unclear. In addition consideration of the cause of apparent stimulation is important. No-match grants can be expected to elicit the most widespread participation by state and local governments, while matching

grants may elicit greater nonfederal fiscal commitments.

Second, situational factors appear to be crucial. These include the size and timing of the grant offerings relative to state and local activity and whether or not maintenance-of-effort requirements are in existence and effective.

Third, it cannot be assumed that two similarly designed grants for two different functional areas will be equally effective, in part because political preferences that influence grant responses can be

expected to vary for different types of public spending. A corollary is that the same grant for the same activity to two different recipients may elicit entirely different responses, depending on local economic conditions, political factors, and servicing tastes.

Finally, the total impact of a grant cannot be fairly assessed without considering the ways in which effort-related requirements, such as matching and maintenance-of-effort provisions, interact with allocational formula characteristics.

FOOTNOTES

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³See Chapter III of this volume, "Why Categoricals?"

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⁶Neil Singer, *Public Microeconomics*, Boston, MA, Little, Brown, 1976, p. 55.

⁷*Ibid.*, pp. 56-57.

⁸George F. Break, *Intergovernmental Fiscal Relations in the United States*, Washington, DC, The Brookings Institution, 1967, p. 78.

⁹Martha Derthick, *Uncontrollable Spending for Social Services*, Washington, DC, The Brookings Institution, 1975.

¹⁰Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice*, New York, NY, McGraw-Hill Book Co., 2nd Ed., 1976, p. 626.

¹¹Break, *op. cit.*, p. 77.

¹²*Ibid.*, pp. 85-86.

¹³*Ibid.*, p. 86.

¹⁴Maxwell, *op. cit.*, p. 220.

¹⁵*Ibid.*

¹⁶*Ibid.*, pp. 229-30.

¹⁷*Ibid.*, p. 230.

¹⁸No-match grants, as well as matching grants, have price effects. No-match categorical grants lower the effective price facing the recipient for the aided activity to zero. The addition of a required match raises the price to the recipient.

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²⁴*General Revenue Sharing*, Hearings Before the Subcommittee on Revenue, Committee on Finance, U.S. Congress, Senate, 94th Cong., 1st Sess., April 16, 17, and May 21, 22, 1975, p. 160.

²⁵Charles L. Schultze and Henry Owen (eds.), *Setting National Priorities: The Next Ten Years*, Washington, DC, The Brookings Institution, 1976, p. 368.

²⁶Charles Edwards, Assistant Secretary for Health, *Testimony Before the Subcommittee on Public Health and Environment*, Committee on Interstate and Foreign Commerce, U.S. Congress, House of Representatives, 93rd Cong., 2nd Sess., Feb. 14, 15, 19, 20, 21, and 22, 1974, pp. 458-59.

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³³*Ibid.*, p. 775.

³⁴*1971 Housing and Urban Development Legislation*, Hearings Before the Subcommittee on Housing, Committee on Banking, Housing, and Urban Affairs, U.S. Congress, Senate, 92nd Cong., 1st Sess., Aug. 2 and 3, Sept. 13, 14, 15, 16, 17, 20, 21,

- and 22, 1971, p. 67.
- ³⁵1973 *Housing and Community Development Legislation*, Hearings Before the Subcommittee on Housing and Urban Affairs, Committee on Banking, Housing, and Urban Affairs, U.S. Congress, Senate, 93rd Cong., 1st Sess., July 16, 17, 18, 19, 20, 23, 24, and 27, 1973, p. 47.
- ³⁶*Ibid.*, pp. 13-14.
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- ³⁹*Ibid.*, p. 7.
- ⁴⁰*Ibid.*, p. 8.
- ⁴¹*Ibid.*, pp. 12-13.
- ⁴²*Open-ended Federal Matching of State Social Service Expenditure Authorized Under the Public Assistance Titles of the Social Security Act*. Hearings Before the Subcommittee on Fiscal Policy, Joint Economic Committee, U.S. Congress, 92nd Cong., 2nd Sess., Sept. 12, 13, and 14, 1972, p. 3.
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- ⁴⁶Federal Security Agency, *The Principle of Equalization Applied to the Allocation of Grants-in-Aid*, Washington, DC, Social Security Administration, Bureau of Research and Statistics, Memo No. 66, September 1947, p. 36.
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- ⁵²*Ibid.*, p. 78.
- ⁵³Federal Security Agency, *op. cit.*, p. 38.
- ⁵⁴*Ibid.*, pp. 38-39.
- ⁵⁵*Ibid.*, p. 39.
- ⁵⁶*Ibid.*
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- ⁵⁸O. V. Key, Jr., *The Administration of Federal Grants to States*, Chicago, IL, Public Administration Service, 1937, p. 324.
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- ⁶⁰*Ibid.*, p. 40.
- ⁶¹*Ibid.*, pp. 40-41.
- ⁶²*Ibid.*, pp. 41-42.
- ⁶³*Ibid.*, p. 41.
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- ⁶⁵*Ibid.*
- ⁶⁶Maxwell, *op. cit.*, p. 193.
- ⁶⁷*Ibid.*, p. 112.
- ⁶⁸*Ibid.*, pp. 203-04.
- ⁶⁹*Ibid.*, pp. 206-07.
- ⁷⁰*Ibid.*, pp. 207-08.
- ⁷¹*Ibid.*, pp. 209-10.
- ⁷²*Ibid.*, pp. 210-11.
- ⁷³*Ibid.*, p. 74.
- ⁷⁴*Ibid.*, p. 80.
- ⁷⁵Federal Security Agency, *op. cit.*, p. 48.
- ⁷⁶Key, *op. cit.*, p. 346.
- ⁷⁷*Ibid.*, p. 348.
- ⁷⁸Maxwell, *op. cit.*, pp. 85-86.
- ⁷⁹Key, *op. cit.*, pp. 348-49.
- ⁸⁰Maxwell, *op. cit.*, p. 85.
- ⁸¹*Ibid.*, p. 88.
- ⁸²*Ibid.*, p. 91.
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- ⁸⁴*Ibid.*, pp. 50-51.
- ⁸⁵*Ibid.*
- ⁸⁶*Ibid.*, p. 53.
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- ⁹⁷*Ibid.*
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- ¹⁰⁹*Ibid.*
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- ¹²⁶*Ibid.*, p. 17.
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Table V-A2
**Matching Composition of Selected Budget Function Categories;
 Grants to State and Local Governments, FY 1975**

	No Match	Cost- Shared	Low Match	50 Per- cent	High Match	Variable Match	Unclassified	Total
301—Water Resources and Power	2	0	0	5	0	0	0	7
302—Conservation and Land Management	0	1	2	9	0	0	0	12
303—Recreation and Resources	0	1	4	3	0	0	0	8
304—Pollution Control and Abatement	2	0	19	1	0	0	1	23
306—Other Natural Resources	1	0	3	1	0	0	0	5
Subtotal	5	2	28	19	0	0	1	55
401—Mortgage Credit and Thrift Insurance	1	0	1	0	0	0	0	2
403—Other Advancement and Regulation of Commerce	1	0	1	1	0	0	1	4
404—Ground Transportation	6	1	28	2	0	0	0	37
405—Air Transportation	0	0	3	0	0	0	0	3
406—Water Transportation	1	1	0	1	1	0	0	4
407—Other Transportation	0	0	0	1	0	0	0	1
Subtotal	9	2	33	5	1	0	1	51
501—Elementary, Secondary, and Vocational Education	58	5	12	2	0	0	1	78
502—Higher Education	6	0	2	1	0	0	0	9
503—Research and General Education Aids	6	0	0	4	0	2	1	13
504—Training and Employment	11	1	6	0	0	0	1	19
505—Other Labor Services	1	0	0	0	0	0	0	1
506—Social Services	9	5	19	0	0	2	1	36
Subtotal	91	11	39	7	0	4	4	156
551—Health Care Services	11	5	3	2	0	1	6	28
552—Health Research and Education	10	10	2	0	0	0	0	22
553—Prevention and Control of Health Problems	6	7	2	4	0	0	0	19
554—Health Planning and Construction	1	0	0	0	0	1	0	2
Subtotal	28	22	7	6	0	2	6	71
604—Public Assistance and Income Supplements	14	2	1	3	0	2	0	22
754—Law Enforcement Assistance	5	1	7	0	0	0	0	13
TOTAL	152	40	115	40	1	8	12	368

Source: ACIR staff tabulations.

Table V-A3

**Grant Composition, By Type and Budget Function with Matching Requirements;
Grants to State and Local Governments, FY 1975**

	Project							Project/Formula							Formula							TOTAL			
	No match	Cost-shared	Low match	50 Percent	High match	Variable match	Unclassified	Subtotal	No match	Cost-shared	Low match	50 Percent	High match	Variable match	Unclassified	Subtotal	No match	Cost-shared	Low match	50 Percent	High match		Variable match	Unclassified	Subtotal
050—Military			1	2				3				1			1					1				1	5
250—Science and Technology		1						1								0								0	1
300—Resources and Energy	3	2	21	13				39	2		3	3			1	9			4	3				7	55
350—Agriculture	2			1				3				1			1		1			3				4	8
400—Commerce and Transportation	5	2	13	2				23	1		5				6		3		15	3	1			22	51
450—Community and Regional Development	14		25	3			4	46	1		2	2			5									0	51
500—Education and Social Services	54	10	22	1		1	4	92	8	1	2				11		29		15	6		3		53	156
550—Health	25	22	7	4			6	64						1	1		3			2		1		6	71
600—Income Security	8	2		1				11							0		6		1	2		2		11	22
700—Veterans			1				1	2			1				1									3	6
750—Law Enforcement and Criminal Justice	5	1	4					10							0				3					3	13
800—General Government		1		1				2				1			1									0	3
TOTAL	116	41	94	28	0	1	16	296	12	1	13	8	0	1	1	36	42	0	38	23	1	6	0	110	442

Source: ACIR staff tabulations.

Table V-A4
**Grant Composition, By Type and Budget Function with Matching Requirements;
 Grants to State and Local Governments, FY 1975**

	Project						Project/Formula						Formula										
	No match	Cost-shared	Low match	50 Percent	High match	Subtotal	No match	Cost-shared	Low match	50 Percent	High match	Variable match	Unclassified	Subtotal	No match	Cost-shared	Low match	50 Percent	High match	Variable match	Unclassified	Subtotal	
050—Military						3								1									1
251—General Science						1								0									0
301—Water Resources Power	1		4			5	1							1									1
302—Conservation Land Management	1		7			8	1							1									3
303—Recreational Resources	1		1			2	1							3									3
304—Pollution Con- trol and																							
Abatement	1	18	1			20	1						1	3									0
306—Other Natural Resources	1		2			4	1							1									0
352—Agricultural Research and Services	2		1			3	1							1									4
401—Mortgage Credit and Thrift																							
Insurance	1		1			2								0									0
403—Other Advancement and Regulation of																							
Commerce	1		1			4								0									0
404—Ground Trans- portation	3	1	10			15	1							4									18
405—Air Trans- portation			1			1								2									0
406—Water Trans- portation																							
407—Other Trans- portation	1					1								0									3
451—Community Development	4		7			13	1							2									0
452—Area and Re- gional Develop- ment	3	17	1			3	24	1						3									0
453—Disaster Roles and Insurance	7		1			9								0									0
TOTAL	5	1	2	1	1	10	1	1	1	1	3	1	1	18	1	1	1	1	1	1	1	1	5

(Continued)

Table V-A4

**Grant Composition, By Type and Budget Function with Matching Requirements;
Grants to State and Local Governments, FY 1975**

	Project						Project/Formula						Formula												
	No match	Cost-shared	Low match	50 Percent	High match	Variable match	Subtotal	No match	Cost-shared	Low match	50 Percent	High match	Variable match	Unclassified	Subtotal	No match	Cost-shared	Low match	50 Percent	High match	Variable match	Unclassified	Subtotal		
501—Elementary, Secondary, and Vocational Education	36	4	7	1	48	1	48	4	1	1	1	1	6	6	18	4	2	4	2	4	2	24	24	78	
502—Higher Education	4	1	1	5	5	0	5	2	1	1	1	0	0	0	2	1	1	1	1	1	1	4	4	9	
503—Research, General Education	4	1	1	6	6	0	6	2	1	1	1	0	0	0	2	3	2	3	3	3	2	7	7	13	
504—Training and Employment	3	1	3	8	8	0	8	2	1	1	1	3	3	3	6	2	2	2	2	2	2	8	8	19	
505—Other Labor Services	7	5	11	1	25	1	25	1	1	1	1	1	1	1	1	8	1	8	1	1	1	10	10	36	
551—Health Care Services	10	5	3	6	24	0	24	1	2	2	2	1	0	0	1	2	1	2	2	1	1	4	4	28	
552—Health Research and Education	10	10	2	22	22	0	22	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	22	
553—Prevention and Control of Health Problems	5	7	2	4	18	0	18	0	0	0	0	0	0	0	1	1	1	1	1	1	1	1	1	19	
554—Health Planning and Construction	8	2	1	11	0	1	11	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	
604—Public Assistance	8	2	1	11	0	1	11	0	0	0	0	0	0	0	6	1	2	1	2	2	2	11	11	22	
703—Hospital and Medicare for Veterans	1	1	1	2	2	1	2	1	1	1	1	1	1	1	1	3	3	3	3	3	3	3	3	6	
754—Law Enforcement Assistance	5	1	4	10	10	0	10	0	0	3	3	3	0	0	3	3	3	3	3	3	3	3	3	13	
804—General Property and Records Management	1	1	1	1	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	
806—Other General Government	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	
TOTAL	116	41	94	28	0	1	16	296	12	1	13	8	0	1	1	36	42	0	38	23	1	6	0	110	442

Source: ACIR staff tabulations.

Table V-A5
Grants with Rising Matching Requirements

Budget Category	Program	Federal Share		
406	State Boating Safety Program	FY '72	75%	
		'73	67%	
		'74	50%	
		'75	40%	
		'76	33%	
451	Community Action: Community Action Agency (CAA) grants:		(a)	(b)
	(a) CAAs with federal funding less than \$300,000	FY '75	80%	80%
	(b) CAAs with federal funding more than \$300,000	'76	75%	70%
451	Community Action: special programs and assistance:		(a)	(b)
	emergency energy conservation services	FY '75	80%	80%
	(a) CAAs with federal funding less than \$300,000	'76	70%	60%
451	Community Action: special programs and assistance:		(a)	(b)
	senior opportunities and services	FY '75	80%	80%
	(a) CAAs with federal funding less than \$300,000	'76	75%	70%
451	Community Action: special programs and assistance:		(a)	(b)
	Domestic Volunteer Services:	'77	70%	60%
	Retired Senior Volunteer Programs (RSVP)	1st yr.	90%	
451	Retired Senior Volunteer Programs (RSVP)	2nd yr.	80%	
		3rd yr.	70%	
		4th yr.	60%	
		5th yr.	50%	
		1st-2nd yrs.	100%	
452	Appalachian Regional Development:	3rd-5th yrs.	75%	
	demonstration health projects: operations	1st-2nd yrs.	100%	
452	Appalachian Regional Development:	3rd-5th yrs.	75%	
	vocational and technical education demonstration projects: operations	1st yr.	80%	
501	Environmental Education:	2nd yr.	60%	
	comprehensive program grants	3rd yr.	40%	
		3rd yr.	50%	
504	Work Incentives for AFDC:	1st yr.	100%	
	public service employment agreements	2nd yr.	75%	
		3rd yr.	50%	
506	Developmental Disabilities:	1st-2nd yrs.	90%	
	basic grants (poverty areas)	3rd yr.	80%	
506	Vocational Rehabilitation:	1st 15 mos.	75%	
	special federal responsibilities:	next yr.	60%	
	rehabilitation facilities staffing grants	next yr.	45%	
		next yr.	30%	
551	Emergency Medical Services:	1st yr.	50%	
	establishment and initial operation of systems	2nd yr.	25%	

(continued)

Table V-A5
Grants with Rising Matching Requirements

Budget Category	Program		Federal Share		
			(a)	(b)	
551	Community Mental Health Centers: initial staffing grants				
		(a) nonpoverty areas	1st-2nd yrs.	75%	90%
		(b) poverty areas	3rd yr.	60%	80%
			4th yr.	45%	75%
			5th yr.	30%	75%
			6th-8th yrs.	30%	70%
551	Facilities for Alcoholism Rehabilitation: initial staffing grants				
		(a) nonpoverty areas	1st-2nd yrs.	80%	90%
		(b) poverty areas	3rd yr.	75%	80%
			4th yr.	60%	75%
			5th yr.	45%	75%
			6th-8th yrs.	30%	70%
551	Mental Health of Children: grants for initial staffing of treatment facilities				
		(a) nonpoverty areas	1st-2nd yrs.	80%	90%
		(b) poverty areas	3rd yr.	75%	80%
			4th yr.	60%	75%
			5th yr.	45%	75%
			6th-8th yrs.	30%	70%
551	Narcotic Addiction, Drug Abuse and Drug Dependence Prevention and Rehabilitation: initial staffing of treatment facilities				
		(a) nonpoverty areas	1st-2nd yrs.	80%	90%
		(b) poverty areas	3rd yr.	75%	80%
			4th yr.	60%	75%
			5th yr.	45%	75%
			6th-8th yrs.	30%	70%
551	Special Treatment or Rehabilitation Projects: for narcotic addicts or drug-dependent persons				
		(a) nonpoverty areas	1st-2nd yrs.	80%	90%
		(b) poverty areas	3rd yr.	75%	80%
			4th yr.	60%	75%
			5th yr.	45%	75%
			6th yr.	30%	65%
			7th yr.	25%	50%
			8th yr.	20%	35%
			1st yr.	90%	
			2nd yr.	75%	
3rd yr.	60%				
703	Medical Facilities Sponsored by VA: grants for faculty salaries				
			1st-3rd yrs.	90%	
			4th yr.	80%	
			5th yr.	70%	
			6th yr.	60%	
	7th yr.	50%			

Source: ACIR staff tabulations.

Table V-A6
**Reported State Matching Contributions, Per Capita Income Rank, and
 Percent of Grants Accounted for by Public Assistance, FY 1974**

State	Income Rank ^a	Public Assistance as Percent of Total Grants ^b	Matching Contribution as Percent of Federal Grants ^c
New York	6	41.9%	42.9%
Wisconsin	28	41.2	
Michigan	11	37.2	67.9
California	9	36.2	42.7
Illinois	5	36.0	65.3
Minnesota	22	34.2	55.1
Massachusetts	12	33.9	
Rhode Island	23	32.8	56.9
Maine	40	32.0	
New Jersey	4	31.7	51.8
Pennsylvania	19	29.8	55.6
Georgia	35	28.3	
Connecticut	2	27.5	24.1
Vermont	39	27.5	33.7
Oklahoma	48	26.7	
Kentucky	43	26.1	
Washington	13	26.0	25.0
Texas	33	25.6	
Florida	18	24.9	
Colorado	16	24.6	29.0
Oregon	27	24.2	41.2
Ohio	17	24.1	
Arkansas	49	24.0	
Alabama	47	23.1	
Virginia	24	23.0	27.2
New Hampshire	32	22.9	
Maryland	10	22.3	39.0

(Continued)

Table V-A6

**Reported State Matching Contributions, Per Capita Income Rank, and
Percent of Grants Accounted for by Public Assistance, FY 1974**

State	Income Rank ^a	Public Assistance as Percent of Total Grants ^b	Matching Contribution as Percent of Federal Grants ^c
Kansas	15	22.2	
North Carolina	37	22.0	16.5
Hawaii	8	21.8	13.2
Iowa	21	21.4	23.0
Tennessee	41	20.8	
Delaware	3	20.6	25.6
Nebraska	20	20.5	
South Carolina	46	20.2	18.6
Indiana	26	20.0	
Mississippi	50	19.2	
Idaho	36	19.1	11.7
Louisiana	45	18.5	
Utah	42	18.4	
Missouri	30	18.2	34.6
North Dakota	14	18.0	
Montana	31	17.2	46.3
New Mexico	48	16.7	
South Dakota	34	15.9	
West Virginia	44	14.5	
Nevada	7	12.4	
Wyoming	25	8.5	35.1
Arizona	29	6.0	17.0
Alaska	1	5.6	

^a1972-74 average per capita income; based on Bureau of the Census estimates of the total population.

^bSource: Sophie Dales, "Federal Grants to State and Local Governments, Fiscal Year 1975: A Quarter-Century Review," *Social Security Bulletin*, September, 1976.

^cACIR Survey of State Budget Officers; percentage calculated by ACIR by dividing reported matching funds by reported federal grant receipts.



Issues in Federal Grant Allocation

Throughout the history of the federal assistance system, but especially since the Depression, the allocation of aid among states and local jurisdictions has been a topic of sporadic political interest. This concern recently has increased (particularly in the past five or six years), becoming one of the most prominent issues of intergovernmental relations.

This chapter examines the principles that have guided the allocation of federal grants-in-aid among states and localities, with primary attention paid to formula categorical programs. These principles are found to be multiple, differing, and even conflicting in nature. The strengths and weaknesses of each major approach, and the extent to which each is used in the contemporary categorical grant system, are considered briefly.

TARGETING: A GROWING CONCERN

During the 1970s the allocation of federal grants-in-aid among states (and questions regarding the design of grant formulas) became a leading issue of intergovernmental debate and concern. This debate appears to have been stimulated initially by the consideration and adoption (in 1972) of general revenue sharing (GRS). The specification of GRS recipients and the development of a formula for allocating GRS funds were two of the most difficult issues faced by Congress, and at points nearly killed the legislation.¹ Because of a Congressional inability to agree on a single set of provisions, a complex two-part, multistage allocation system was devised con-

taining both a "House formula" and "Senate formula." Yet this compromise did not settle the controversy. Numerous investigators subjected the formula to thorough empirical investigation after 1972, and issues that were raised earlier were brought out again when the program was renewed in 1976.

Similar debate greeted President Richard M. Nixon's proposals for special revenue sharing, particularly that for community development. Adopted (in modified form) in 1974, this consolidated program merged seven project grants into a new formula program. However several urban interest groups initially opposed the use of an entitlement formula rather than discretionary grants, stressing the difficulty of designing a formula that would reflect accurately urban needs. On the other hand some administration officials and others believed that some localities in the past had received undue amounts of assistance from discretionary grants, owing to their superior grantsmanship abilities.²

In part these conflicts pointed toward one of the complexities created by the growing number of federal-local formula grant programs (a comparatively new aid form)—the allocation of public service functions varies among types of local governments in the 50 states,³ and limitations upon the fiscal, social, and program data available for smaller communities exist.⁴ These considerations make the designation of entitlement recipients and the quantitative measurement of their needs difficult and controversial. Yet the concern was broader, touching on many of the traditional federal-state formula

grants as well. For example a 1974 survey of state administrative agency heads disclosed that only 45% of these officials believed that existing federal apportionment formula provisions were satisfactory, representing a substantial historical decline in approval; in 1948, over three-quarters of the respondents had indicated satisfaction on this point.⁵

The publication of an article on regional economic development in a May 1976 issue of the magazine *Business Week* sparked further controversy.⁶ This article, which was quickly followed by several others, called attention to disparities in regional economic development and in the allocation of federal expenditures. It highlighted the rapid rate of population, income, and manufacturing growth in the south and southwest since 1960 and the slower growth (or actual decline) of the northeastern and Great Lakes states. *Business Week* also stressed differences in federal outlays to each region in relation to its share of federal taxes. On this basis the southeast, southwest, Rocky Mountain states, and far west were termed "net winners" in the interregional fiscal competition, while the mideast, Great Lakes, and Plains areas were described as "net losers." Some experts consulted by the magazine believed that the south's need for these federal "subsidies" had passed, and one took the position that now "the south should be subsidizing the north." *Business Week* concluded editorially that "federal policy's uneven impact on the various regions must be reviewed and redirected toward slow-growth areas."⁷

The reaction to these claims was swift and unsettling. Several new regional action groups, including the Coalition of Northeastern Governors and the Northeast-Midwest Economic Advancement Coalition composed of over 200 members of Congress, were established, and significant programs of research into federal spending and taxation patterns were initiated. Attention was focused primarily on grant allocation formulas—despite the fact that the northeast fared comparatively well under this type of federal outlay—because grants were believed to be more flexible and more easily realigned than other spending.⁸ Hoping to secure greater benefits for their region, the Coalition of Northeastern Governors called for three across-the-board revisions in grant formula provisions: (1) cost-indexing of all grant programs for regional differences in cost-of-living; (2) bonus payments to state and local governments making unusually high tax effort (use of their tax base); and (3) an improved definition of poverty for grant purposes.⁹ Each proposal, of course, in-

volves complex technical as well as fundamental political issues.¹⁰ The Coalition also called for a review of formulas for some major aid programs facing renewal in the next session of Congress, including Title I of the *Elementary and Secondary Education Act* (ESEA), countercyclical revenue sharing, community development block grants, and Medicaid.

The growing concern with grant formulas was heightened by charges that they often reflected purely political considerations, not actual need. Martin Tolchin wrote in the *New York Times*:

Rather than disinterestedly deciding who are the poorest, the hungriest, or the most in need of mass transit funds, a member of Congress tends to vote for the distribution formulas that benefit his own constituents the most. The struggle over these formulas pits section against section, and urban legislators against rural.

In the end, the formula is determined by what is necessary to produce a successful coalition. Senator Abraham Ribicoff, Democrat of Connecticut, described the process during the debate of the [public works employment act]. The Senator said, "Day in and day out on this floor all of us get these sheets of paper [with various proposed formulas], and everybody fiddles around with a formula to find out . . . whether it will give a dollar more to 26 states, and then you become a winner—and then the national interest is forgotten."¹¹

Very often, Tolchin asserted, the major losers in these contests were the urbanized northeast states.

The debate was two-sided, of course. Many of the charges leveled by northeastern spokesmen were questioned or denied.¹² Yet a new issue had gained a prominent place on the political agenda.

Given the heightened tension, it is not surprising that the grant allocation issue was among those addressed by the incoming Carter Administration. Stuart Eisenstadt, the Assistant to the President for Domestic Policy, indicated to an audience of mayors that "the word 'better targeting' is a word that you will hear from us very often. We are very committed to it in every area." At the same conference Office of Management and Budget (OMB) Director Bert Lance defined "targeting" as "putting

the money where the need is" while giving maximum control to the recipient of funds.¹³

President-elect Jimmy Carter expressed his personal concern about this issue at a December 1976 press conference:

I think in the past one of the major problems [has] been that when the Congress passes legislation designed to help a certain type of person or a certain type of community, quite often those services and funds have been channeled, through administrative negligence or because of political pressures, into providing services for those who don't need them nearly so much.

I think my own hope would be that in the future, through administrative decisions and through my own influence, that when the proposals are made concerning law enforcement or education or health or welfare or housing or transportation, that the funds should go accurately to the areas of the country who need them most.¹⁴

Carter aides indicated that moving toward a more balanced budget would necessitate better targeting of available funds.

Although this chapter and its research were begun well before the concern with grant allocation had reached its peak, it does examine many relevant issues from an historical perspective and profiles many aspects of the categorical grant formulas as of 1975. Other Advisory Commission on Intergovernmental Relations (ACIR) studies now in progress will explore in greater detail the relationship between regional development and federal spending (including grants-in-aid) and certain other issues in formula design.

THE DEVELOPMENT OF ALLOCATIONAL PRINCIPLES

No single principle or philosophy has guided the allocation of federal assistance among recipient jurisdictions. A number of different principles have been employed; indeed, more than one often is reflected in a single program. These principles to some degree are competitive or even contradictory, not complementary. This fact makes the issue of grant allocation controversial and difficult to resolve.

The nature of allocation principles can be discerned by two methods. First, they can be identified

by examining the types of factors actually employed in grant formulas; this is the main strategy relied on herein. This manner, however, does involve a degree of interpretation, because although the nature of the factors included in a grant formula can be determined, the motivation or rationale for their use usually cannot. Even the legislative histories of assistance programs normally do not provide clear reasons for the particular formula adopted.

Second, allocation principles can be deduced by investigating the actual allocation of grant dollars among the states, using such statistical techniques as correlation and regression. Aid in the aggregate, for particular functional areas, or even for individual programs can be considered. This chapter also draws, to a limited degree, on various research reports of this kind. The two strategies use different types of information and analysis, sometimes pointing toward different (or even conflicting) conclusions.

Four general allocational principles are examined, including:

- 1) "fair share" (or political equity);
- 2) the need for services;
- 3) the actual level of services or costs; and
- 4) fiscal capacity (or financial need).

These four have been derived from previous research on aid issues, a consideration of the formula factors found in current categorical programs (as described in *Chapter IV*), and a review of the historical development of grants-in-aid (traced below).

History

The earliest criteria for allocating federal aid necessarily were simple. Most grants provided benefits to states in uniform amounts (as in the land grants for public schools and universities) or in proportion to their representation in Congress, which approximates total population.¹⁵ Although uniform amounts remained the most important standard until World War I, some programs were allocated on the basis of the need for specific services. For example books for the blind under an 1879 program were distributed according to the number of blind pupils—the first use of the need principle—and grants for soldiers' and sailors' homes depended upon the number of residents in such institutions.

Greater variety in formula provisions appeared in 1911 with the first discretionary grant (the *Weeks*

Act) and the first open-end matching grant, which aided merchant marine academies. Under the latter program, state and local expenditures were matched on a dollar-for-dollar basis.¹⁶

The federal highway aid program of 1916 was the first to use a complex multifactor formula. Its allocations were determined by three criteria: area, population, and rural postal route mileage, subject to a cost limitation of \$10,000 per mile of constructed road. Amendments in 1921 added a special type of fiscal capacity measure: the federal share of program costs was increased for states having significant nontaxable public lands. The *Smith-Hughes Act of 1917* for vocational education also employed

complex formulas. It allocated funds for three programs on the basis of a number of special population factors (total, urban, rural, or farm), depending upon the particular type of instruction involved. Each state was assured a minimum grant of \$5,000 (later \$10,000) in each category.

More attention was given to the principle of fiscal equalization during the Depression and formulas became more complex. Although temporary relief grants under the *Federal Emergency Relief Act of 1933* (FERA) were made on a discretionary basis, beginning in late 1934 the general magnitude of allocations was set by reference to a number of indicators of state economic vitality and need. This

Table VI-1
Total and Per Capita Federal Aid to State and
Local Governments, FY 1975, By State

States (in order of rank for population ^a)	Total Federal Aid Grants (in millions of dollars)	Aid Per Capita
1. California	\$ 4,930	\$233
2. New York	5,682	314
3. Texas	2,220	180
4. Pennsylvania	2,698	228
5. Illinois	2,226	200
6. Ohio	1,788	166
7. Michigan	2,113	231
8. Florida	1,319	158
9. New Jersey	1,501	205
10. Massachusetts	1,456	250
11. North Carolina	1,050	193
12. Indiana	806	152
13. Virginia	1,004	202
14. Georgia	1,179	239
15. Missouri	909	191
16. Wisconsin	920	200
17. Tennessee	911	218
18. Maryland	966	236
19. Minnesota	900	229
20. Louisiana	881	232
21. Alabama	820	227
22. Washington	798	225
23. Kentucky	837	246
24. Connecticut	673	217
25. Iowa	556	194
26. South Carolina	575	204
27. Oklahoma	714	263
28. Colorado	602	238

(Continued)

method constituted the first major use of the fiscal capacity approach.

Other Depression aid was allocated in a manner calculated to relieve the problems posed by severe unemployment. Although public works grants under the *National Industrial Recovery Act of 1933* were of the project type, rough quotas were developed for each state on the basis of its population and the estimated number of unemployed. Some grant formulas were altered in an effort to direct more funds to areas with especially serious distress.

Social welfare spending rose sharply during the Depression years. Among the major programs instituted under the *Social Security Act of 1935* were

three open-end reimbursement grants for public assistance: old age assistance, aid to the blind, and aid to dependent children. In these programs the federal government simply matched each state's expenditures at a ratio established by law.

During the years 1944-46, Congress gave serious consideration to the fiscal equalization principle through the use of variable matching and allocation guides. Under these procedures payments vary directly with need and inversely with fiscal capacity. Three grant programs established under the *Public Health Service Act of 1944* allocated funds according to population, the magnitude of specific health problems, and state financial need. The *National*

Table VI-1
**Total and Per Capita Federal Aid to State and
 Local Governments, FY 1975, By State**

States (in order of rank for population ^a)	Total Federal Aid Grants (in millions of dollars)	Aid Per Capita
29. Mississippi	638	272
30. Oregon	600	262
31. Kansas	445	196
32. Arizona	463	208
33. Arkansas	511	241
34. West Virginia	551	306
35. Nebraska	338	219
36. Utah	294	244
37. New Mexico	399	348
38. Maine	292	276
39. Rhode Island	249	269
40. Hawaii	247	286
41. Idaho	212	259
42. New Hampshire	171	209
43. Montana	231	309
44. District of Columbia	723	1,010
45. South Dakota	213	312
46. North Dakota	171	269
47. Nevada	139	235
48. Delaware	120	207
49. Vermont	154	237
50. Wyoming	132	353
51. Alaska	260	739
U.S. TOTAL	\$48,570	\$228

^aPopulation determined by the average of the July 1 populations for 1974 and 1975.

Source: Federal aid data from U.S. Bureau of the Census, *Statistical Abstract of the United States: 1976*, Washington, DC, 1976, p. 263. Population ranks for 1975 from Congressional Research Service, *Statistical Series on Estimated Federal "Tax Burden" of Residents in Individual States and Federal Outlays in Individual States, Fiscal Years 1970-1975*, Washington, DC, The Library of Congress, 1976, Table II.

School Lunch Act, adopted in 1946, was the first to spell out in detail an equalization system, which was included in both its formula and matching provisions. The formula for the Hill-Burton hospital construction program established in 1946 also reflected differences in the per capita incomes of the states, although variable matching according to income was added by amendment in 1949.

By the late 1940s four principles regarding the allocation of grants already had been established in law:¹⁷ (1) political fair share as indicated by total population or equal amounts; (2) the need for services or program need; (3) the actual level of services or costs; and (4) fiscal capacity. However these differed in terms of fiscal importance. In 1946-47 approximately half of the total dollar volume of federal assistance was allocated by matching state-local expenditures under open-end grants. Another one-third was distributed according to some measure of the need for services (as indicated by a population subcategory, area, mileage, or other measure). Total population and fiscal capacity (in combination with a measure of need) were the basic approaches for an additional 7% each.¹⁸

ASSESSING THE ALTERNATIVES

The four allocational principles embodied in the formulas of early categorical grant programs still continue to be important. Each is applied to a significant number of current federal aids. Moreover there still is no clear consensus regarding their respective use or priority. Each has some philosophical and political arguments in its favor, as well as arguments in opposition. Each raises a number of technical questions involving the availability and accuracy of suitable statistical measures. These issues are difficult and not resolved easily.

The following discussion summarizes these issues and indicates the number of cases in which a particular type of formula factor has been employed. These data are drawn from the enumerations reported in *Chapter IV*, and include only the 146 formula-based categorical programs. GRS and the five block grant programs are considered only when specifically indicated.

Political "Fair Share" Criteria

In the American federal system, two basic political standards of equity or equality exist. First, all states are legal coequals, irrespective of their size or other

attributes. This principle, of course, is the basis of representation in the U.S. Senate. A second standard establishes the equality of individuals. This rule determines the composition of the U.S. House of Representatives and lies behind the "one man-one vote" rule of legislative apportionment.

Not surprisingly similar principles were reflected in some of the earliest allocations of federal assistance. For example the federal budgetary surplus of 1837 was distributed among the states according to their representation in Congress, and the same indicator determined the size of land grants for colleges of agriculture in 1862.¹⁹ Congressional representation, of course, is determined chiefly by population, with some additional advantage given to smaller states. Many other early grants were awarded on an equal share per state basis.

These standards may be interpreted as political "fair-share" criteria. Similar reasoning appears to influence the pattern of distribution of many contemporary grants; this is apparent in the use of total population as well as several types of devices that tend to equalize benefits among the states. However only a small number of programs now are distributed solely on a population or equal-share basis.

USE OF TOTAL POPULATION

Total population continues to be used fairly frequently in the allocation of federal aid, and it is also a standard by which the "fairness" of expenditures is often judged. As is indicated in *Table IV-5*, 28 categorical programs existed in 1975 in which total population entered into the apportionment formula. In only three of these, however, was total population the sole distributive criterion: the hunter safety program; vocational rehabilitation services innovation and expansion grants; and law enforcement and criminal justice basic grants for correctional institutions and facilities. Furthermore the first of these three includes both a minimum and maximum allocation, and the second includes a minimum or base grant. These stipulations constrain the impact of population differences to some degree.

Population is a factor in the formulas of four of the five block grants, and wholly determines allocations for three: the social services, criminal justice, and health programs. Total population also figures heavily in the distribution of GRS funds.

In addition to its use in formulas, population data determines the eligibility of local governments for certain grants. This is the case in both the com-

munity development and manpower block grants, for example.

A recent study by the Statistical Policy Division of OMB identified 64 programs (including block grants and GRS) that make use of total population in their allocation formulas or eligibility provisions. In FY 1975 these programs had obligations totaling \$19.9 billion. Total population was the sole formula factor for 12 of the programs, involving \$3.6 billion in obligations.²⁰

Continuing acceptance of population as an allocation standard also is reflected in the widespread practice of analyzing the actual distribution of grants (and other public expenditures) in per capita terms. Although alternative measures exist, the per capita standard remains by far the most common. In fact the total amount of aid received by each state is associated quite closely with its total population. In 1975 the correlation coefficient (r) between these two variables was 0.97, indicating that about 94% of the interstate variation in total grants was accounted for by the differences in state population.²¹ *Table VI-1* illustrates this close correspondence to the population criterion, showing, for example, that the ten largest states received the ten largest amounts of aid, although not precisely in the order of their size.

The consequence is that differences in per capita grant allocations to the states are only moderate, as *Table VI-1* also indicates. Aside from the District of Columbia and Alaska, the highest per capita aid total in 1975—\$353 for Wyoming—was just 2.3 times that of the lowest (\$152 for Indiana). Interstate variations for certain other types of federal outlays are much larger.²²

Similar data from past years indicates that there has been a general trend of convergence in grant receipts. In 1945-46 the state receiving the greatest per capital benefits—Oklahoma, with \$14.31—had a total nearly five times that of New Jersey (at \$2.95).²³ This convergence was apparent during the period 1967 to 1972, according to a recent ACIR study. Although the nationwide average amount of grants rose from \$99.70 to \$165.02 per capita during these years, the amount of variation as measured by the statistical coefficient of variation decreased by half.²⁴ *Table VI-2* shows that even greater homogeneity in per capita grant allocations exists among the regions, with the range in 1975 from \$195 in Region V (Chicago) to \$281 in Region II (New York). A trend toward convergence also is apparent: the ratio of the grants in the lowest region to

the highest region was 0.57 in 1969, but increased to 0.69 by 1975.

Of course this continuing narrowing of aid differentials appears only when the figures are examined in ratio terms. Because of the substantial growth in aid outlays, the gap in absolute dollars now is far larger than was the case previously. In FY 1946 the absolute range of aid receipts among states was only \$11.36 per capita. In 1975 it was \$201 per capita.

DISADVANTAGES

Total population has certain disadvantages—both conceptual and technical—as a grant allocation factor. The key point is that population is at best a highly generalized and indirect measure of the need for the particular services provided through a categorical program. Yet it is employed in many programs in which the needs of the states might be expected to differ significantly. Examples include hunter safety (15.611),²⁵ highway safety (20.600), and grants for strengthening state and local governmental personnel systems (27.012). More specialized and precise need indicators could well result in a more efficient targeting of aid funds in such instances. Similarly aid to the land grant colleges continues to be allocated according to a highly traditional formula: a base amount plus additional funds, distributed according to total population and equal shares (13.453). No direct indicator of higher education enrollments or requirements is employed. Finally it is unlikely that a close correspondence between population size and the need for or cost of constructing such capital facilities as public libraries (13.408) and community mental health centers (13.240) exists, although population also weighs heavily in these formulas.

Although population might be employed more appropriately in the block grants because these programs support a broad range of services that no single measure of need can reflect adequately, its use in the community development formula also has been challenged. Critics believe that the number of residents in a city or county has little or no relationship to its need for community development activities.²⁶ Similarly sole reliance on total population in making awards under the criminal justice block grant program has been questioned. Crime rates vary widely among jurisdictions of various types and social composition.

Such weaknesses may be increased by the tendency of population data to be magnified in alloca-

tion formulas, even if the population element is weighted equally with others, because the range of variation in population is so large; the largest state, California, has a population 62 times that of the smallest, Alaska. Differences among city population totals are even greater. In the instance of the community development program, for example, the use of a poverty factor—even though it is weighted double—does not negate the ability of population to shift funds to large but not necessarily needy jurisdictions.²⁷ According to DeLeon and LeGates, the existing community development block grant formula distributes funds almost exactly in proportion to a city's population size, and weighting poverty even 20 times would have little influence on distribution if the population factor is retained.²⁸

On the other hand total population may provide a satisfactory estimate of need for those problems that are randomly distributed among the total citizenry or that affect all individuals and areas about equally. General public health services appears to

be an example. It also may be necessary to rely on population as an allocational guide in instances in which more precise indicators of need are not available. As was indicated in *Chapter IV*, this could explain its use in the formulas of the alcohol and drug abuse grants, as well as a number of others. This does not make the measure very accurate, of course. For example estimates of the number of narcotics addicts in seven large central cities range from 31 to 191 per 10,000 population.²⁹

The second difficulty concerning population relates to the accuracy of the data. Although the enumerations in the decennial census attempt to include every resident of the nation, substantial numbers of people are missed. Estimates of the undercount in 1970 amounted to about 2.5% of the total population, and it is thought to be considerably higher for blacks—7.7%—and other minority groups. The result is that central cities and other areas that are heavily populated by minorities receive smaller grant allocations than should be the case.³⁰

Table VI-2
Distribution of Grants, By Region,
1969 and 1975

	1975 ^b Total Grants	Per Capita		Percent Change, 1969-75
		1969	1975	
Federal Region^a				
I. Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island	\$3.0	\$102	\$246	141%
II. New York, New Jersey, Puerto Rico, Virgin Islands	8.0	103	281	173
III. Virginia, Pennsylvania, Delaware, Maryland, West Virginia, District of Columbia	6.2	94	260	177
IV. Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida	7.3	101	209	107
V. Illinois, Indiana, Michigan, Ohio, Wisconsin, Minnesota	8.8	77	195	153
VI. Arkansas, Louisiana, Oklahoma, New Mexico, Texas	4.7	111	214	93
VII. Iowa, Kansas, Missouri, Nebraska	2.2	88	196	123
VIII. Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming	1.6	136	266	96
IX. Arizona, California, Nevada, Hawaii, other territories	5.9	116	235	103
X. Idaho, Oregon, Washington, Alaska	1.9	117	267	128
United States	49.7	99	233	135

Note: See "Federal Aid to States," Department of the Treasury, for additional information concerning state distribution of federal grants.

Source: Office of Management and Budget, *Special Analyses: Budget of the United States Government, Fiscal Year 1978*, Washington, DC, U.S. Government Printing Office, 1977, p. 272.

^aThese are not the same regions as those used for national income account computations.

^bIn billions of dollars.

Even small errors of enumeration take on considerable importance in instances in which population size determines the eligibility of local governments for a grant. An undercount or overcount may make the difference between receiving or not receiving federal aid.

Census data also becomes outdated very rapidly in areas that are experiencing significant growth or decline. This situation is especially a problem at the local level where substantial changes in population may occur over a short period. Of the 64 programs using total population identified in the OMB study, 23 involve grants to local governments, while 41 are directed to state governments.

The enactment of the GRS program brought these issues of accuracy and currency to the forefront. Under the 1972 act data that had not been available previously on a regular basis were needed for the formula. These included population, income, and tax information for 38,500 units of general purpose local government, 70% of which have populations below 2,500.³¹ Through FY 1975, GRS allocations were based upon annual estimates of population for each state, but the only accurate data for city, county, and township populations were those obtained in 1970. Dissatisfaction with this situation led the Census Bureau to use a new methodology, with the result that in FY 1976, certain local entitlements were determined by population estimates based in part on information collected on 1972 income tax returns.³² New population and income estimates for all local jurisdictions between decennial censuses was made available for the first time.³³

Shortly thereafter, OMB Circular A-46, "Standard Data Source of Total Population Used in Distributing Federal Benefits," was amended to require federal agencies to use the most current, complete national data series published by the Census Bureau in making grant allocations, except where legislation specifies the use of other data.³⁴ Seventy-five grants that use total population in determining allocations either directly (as a formula element or eligibility provision) or indirectly (as in the use of per capita income) are subject to the OMB circular requirement. Although some of these programs specify the use of 1970 census data, 95% of the funds subject to this circular use updated estimates. Before the amendment to the circular, however, the agencies involved did not always use data from the same source or the same point in time.³⁵

Other steps have been taken to assure the availability of even more accurate information in future

years. In late 1976 a bill authorizing a mid-decade census was signed into law. Under this act new enumerations based, where feasible, on sampling techniques will be provided in 1985 and every ten years thereafter.³⁶ Although plans for this census are not developed fully, population totals for all units of general purpose local government will be provided.

Despite these problems of currency and accuracy, population data is more readily available, and generally much more accurate, than data regarding many of the more program-specific measures of need. Its objectivity and availability certainly go far in explaining the frequency with which population totals have in the past, and to some degree still continue, to be employed in grant formulas.³⁷

OTHER "FAIR SHARE" CRITERIA

Allocations of aid in uniform amounts per state, a second "fair share" criterion, also remain frequent. As was indicated in *Chapter IV*, 34 programs exist in which an equal amount of assistance is distributed to each state. In only two of these, however, are equal amounts the sole allocation factor—assistance to state institutes for water resources research (15.951), under which each state receives an equal annual allotment of approximately \$100,000, and the basic grants to states for the promotion of the arts (45.997), which in FY 1976 provided equal amounts of \$205,000 to each state. The other 32 programs have a multifactor formula, and the effect of the uniform amounts provision is simply to provide a base grant for each state.

A study prepared by the Region V federal regional council illustrated the effect of these base grant provisions in the law enforcement planning grant program (16.500). Each state receives an entitlement of \$200,000, while the balance of appropriated funds are apportioned among the states according to their population. The result in FY 1974 was that Illinois (with over 5% of the nation's population) received a total grant of \$2,303,000, rather than the \$2,696,000 to which it would have been entitled on a population basis alone. On the other hand, Nevada (with less than 0.2% of the nation's population) received \$292,000, more than double the \$119,000 it would have received on a strictly population basis.³⁸

The equal shares principle also is reflected in the even more common practice of setting minimum or maximum allotments for each recipient. These restrict the range of other formula factors and also

generally work to the advantage of the smaller states and to the disadvantage of the larger ones. *Table IV-A1* (see Appendix to *Chapter IV*) identifies 38 categorical formula programs that include a basic minimum entitlement. Fifteen programs provide a maximum or ceiling on the allocation to any particular recipient. Among the program areas in which these provisions are particularly common, as indicated in *Table IV-A1*, are recreational resources, agricultural research and services, highway safety, water transportation, education (of all kinds), social services, health, and child nutrition.

These provisions account, in some part, for the tendency of smaller states to receive slightly higher per capita benefits than do larger states. *Table VI-3* indicates a weak but persisting negative relationship between population size and per capita grants in selected years over the period 1942-72.

Although all of these practices can be interpreted in political terms as reflecting the "Senate principle," an administrative rationale also exists in some cases. A certain minimum amount of funds may be required to cover the basic costs of establishing an activity. This reasoning probably explains, for example, the use of a flat grant of \$200,000 to each state criminal justice planning agency (16.500).

Hold harmless provisions are another variation on this theme. *Table IV-A1* identifies 14 categorical grants in which a prior year's funding level determines the current minimum allocation to each state. Such provisions protect recipients from rapid fluctuations in grant receipts by tying awards to a recipient to the amount of its allocation in some earlier years. However they also have the effect of diluting the extent to which aid is allocated by need as measured by the formula.

SUMMARY

Most early federal grants-in-aid were distributed according to very generalized measures of need reflecting two standards of political equity: representation in Congress (roughly proportional to population) and equal shares among the states. Although many later grants were allocated according to more specific indicators, the political fair-share principle continues to be important and is included in about 60% of the grants studied. Allocations in only five categorical programs, however, are based solely on either total population or equal shares. Population is the only formula factor for three block grants.

Table VI-3

Simple Correlation of Per Capita Federal Grants and Population Size, 1942-72

1972	-.2314
1967	-.2868
1962	-.3690
1942	-.2839

Source: Advisory Commission on Intergovernmental Relations, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates (A-61)*, Washington, DC, U.S. Government Printing Office, 1977, p. 33.

Of the 146 formula-based categorical grants, 28 include total population as an allocation factor. In 34 programs at least a portion of the total grant is distributed in equal amounts to each state. Minimum and maximum entitlements also commonly are imposed, with 50 grants stipulating some type of basic minimum entitlement and 15 programs specifying a ceiling on the allocation of funds to any particular state. These provisions, of course, work against the interests of the larger states and also against those jurisdictions that have high measures of need according to other program factors, while benefiting the smaller and less needy states. This situation appears to be one reason why the smaller states have tended generally to receive slightly greater amounts of assistance in per capita terms than the larger states. However these differences are not great and have been declining.

Need for Services

More specific indicators of the need for services other than total population or equal shares are employed in most programs. Indeed program need is by far the most common allocational principle. The measures used vary in their precision, however. In some cases a direct measure of the need for the aided activity appears in the grant formula. More often an indirect or proxy measure is relied on.

The need principle was used in the first nonland grant—an 1879 program that distributed special reading materials for the blind among the states according to their number of blind pupils. The *Highway Act of 1916* and the *Smith-Hughes Act of 1917* reintroduced program need measures, which have been quite common since.

These measures take several forms. One of the most widely used need measures involves an enu-

meration of some population subcategory. According to the tabulation reported in *Chapter IV*, 58 of the 146 formula-based programs use a segment of the population as a distributional factor. The size of the school-age population (in some instances, of particular categories) is a formula factor in ten education grants. Rural, urban, or farm population enters into 15 allocation formulas, including many of the highway programs. Other population categories (most often age groupings) appear in 34 programs.

Several other measures of the need for services also are employed. The number of students is a factor in ten programs listed in *Table IV-A1* (See Appendix to *Chapter IV*). Various income-related statistics other than per capita income (the latter generally being regarded as an indicator of governmental fiscal capacity, not program need) appear in 13 programs. Land area is a factor in ten.

Other, less readily classified program-specific factors also exist. The "other" category in *Table IV-A1* includes 60 programs (in addition to those for land area), most of which involve particular measures of need. For instance 70% of the amount of water resources planning grants depends on need as determined by the Water Resources Council (65.001). Grants for forest highways depend on the area and value of national forest lands in each state (20.205). Financial assistance for boating safety activities takes into account the number of vessels included under approved state boat numbering systems (20.004). Miles of shoreline enters into grants for coastal zone management (11.418). One factor in the distribution of aid for certified air carrier and receiver airports is the number of enplaned passengers (20.102).

HOW PRECISE?

These measures of program need are more refined than those based upon total population or equal shares, because they are related more directly to the aided activity or group to be served. Indeed quite specific indicators have been developed in some program areas. On the other hand use is made of many indirect or proxy measures that do not reflect the actual need for services with a high degree of precision. Moreover most formulas do not take into account the extent to which service needs are being met by state and local action or differences in the financial cost of meeting them.

Many specific formula factors have been criticized. To cite one example spokesmen for the large

urban states and their cities have condemned the use of urban population data in the urban mass transportation formula grants program. The formula results in highly unequal aid per transit ride, they claim, amounting to just two cents in New York City but 45 cents in Grand Rapids, MI.³⁹

Similarly a 1969 study of the Department of Health, Education, and Welfare (HEW) grants pointed out that, in most programs, very crude measures of program need have been employed. It cited the use in vocational educational programs of farm population for agricultural education, total population for distributive education, rural population for home economics, and nonfarm population for trade and industrial education.⁴⁰ Although many HEW programs are intended to assure a national minimum level of service, the study argued that this goal requires more precise indicators of performance and need than these rough proxies.⁴¹

Many other examples exist. For instance basic grants for the education of the handicapped are determined by the size of the population aged 3 to 21 years, rather than by a precise count of the number of children with various disabilities (13.449). Formula-project grants for emergency school aid—aimed at "eliminating, reducing, or preventing minority group isolation" and the disadvantages of such isolation—are, in three separate programs, determined by a formula based on the number of minority children from age 5 to 17 years (13.525; 13.527; 13.529). School enrollments, and the extent to which minority children actually experience "isolation" or have been affected by it, are not considered. Similarly formula-project grants for rural community fire protection are determined in part by the population in towns under 10,000 and in rural areas, not more specific measures for fire protection requirements or adequacy of existing services (10.662).

Population data for specific groups also have the same technical problems of currency and accuracy that affect population totals. Although the Census Bureau provides annual estimates of total population for each state, these are not made for many population subcategories. For example one factor used in several of the vocational education formulas—the number of persons aged 15 to 19 years in each state—is provided only by the decennial census.⁴² Similarly data for urbanized population fully reflects only the population of metropolitan areas that existed during the census year.

It has not yet been determined what information, in addition to total population, will be pro-

vided by the new mid-decade census to be taken in 1985. The legislation permits the use of sampling techniques, which might not be of sufficient accuracy for the estimation of many population subcategories.

Some census concepts originally designed chiefly for statistical purposes have weaknesses when they are related to governmental expenditures and service needs. For example the Census Bureau definition of "urban" includes communities with a population as low as 2,500 people. However the servicing needs of small urban communities differ dramatically from those of large cities. A second, related measure is the Standard Metropolitan Statistical Area (SMSA), which is composed of one or more inter-related counties containing a central city of at least 50,000 population. These two indicators sometimes give quite different assessments of the extent of a state's urbanization. For example Michigan and Missouri had roughly equal percentages of their population residing in urban areas in 1970: 73.8% and 70.1%, respectively. However Michigan is considerably more metropolitan than Missouri, with 82.9% of its residents living in SMSAs, compared with Missouri's 65.0%.

On the other hand, why census data and definitions have been employed so often in grant allocation formulas is apparent: they remain the most readily available standardized and objective statistical information available to Congress and the executive branch. Whatever their weaknesses in particular instances or for specific programmatic purposes, sometimes no obvious, low-cost source of more precise or specialized "need" information exists.

ACTUAL ALLOCATION OF FUNDS

Although the evidence is scattered and incomplete, some research reports have suggested that the most needy areas do not necessarily receive the greatest benefits under existing allocation provisions. Although grants in the fields of health, education, and welfare generally are intended to benefit poor persons with special social service needs, a study of grant allocations among states for 1971 found little relationship between the percentage of poor families and the per capita amount of grants, as is shown by *Table VI-4*. The authors commented, "For each of the broad functional areas—health, education and public assistance—there is no consistent pattern of distributions to states where there are poor persons and poor governments."⁴³

Table VI-4
Correlation Coefficients for Per Capita Health, Education, and Welfare Grants and Percent of Poor Families, 1971

	r	r ²
Health, Education, and Welfare	0.28	0.078
Education	0.10	0.010
Miscellaneous Social Welfare	0.54	0.292
Public Assistance	0.09	0.008
Health	0.06	0.004

Source: Interuniversity Study Team, *Services to People: State and National Urban Strategies*, Washington, DC, Public Services Laboratory, Georgetown University, 1973, p. 248.

Other studies have investigated allocations at the local level. A 1971 study, *Federal Aid to Education: Who Benefits?*, reported results that were termed "grossly disappointing." Rural areas were discovered to receive far more aid proportionately than metropolitan areas, including central cities. One "glimmer of light" was that federal aid did go in greater proportion to districts with above-average percentages of nonwhite students. However the report added that "these tendencies toward equity... are far too little to overcome the basic maldistribution of educational finances in this nation."⁴⁴

A study by Raynsford and Harris examined the location of grant outlays in 1969 according to a number of objective indicators of program need. They found differences in the extent to which expenditures were concentrated in counties with the highest need among seven major functional areas:

Law enforcement assistance in 1969 was quite concentrated in those counties with the highest crime rates, and those with the least crime received little. Expenditures for air pollution control were twice as concentrated in those counties where air pollution is relatively worse. Expenditures for water pollution control, however, appear to be independent of the location of water pollution....

Expenditures for urban mass transit display the expected pattern of being highly concentrated in those SMSA counties of lowest auto density, which

are in fact the central city counties of the largest SMSAs. Displaying these expenditures in relation to automobile densities tends to emphasize their role as an automobile substitute, which is most needed in the urban setting where there are fewest automobiles per capita.

None of the remaining federal programs are strongly directed toward those areas where the needs, as revealed by the indicator data, are greatest. Although federal grants for elementary and secondary education showed some tendency to be concentrated in the counties with the lowest percentage of population over 25 who had completed high school, the same program was also slightly concentrated in those counties with the highest percentage of high school graduates. Relative to their population, moreover, counties with the lowest percentage of sound housing units received less than their proportionate share of federal outlays for housing and community aids. Finally a quite low percent of federal expenditures for health services and care is located in those counties with the highest infant mortality rates, which are probably the best single indicator of general health care.⁴⁵

POTENTIAL FOR IMPROVEMENT

Altogether the available information suggests that the formula provisions employed in many programs are at best rough proxies for actual programmatic requirements. Some indications also exist that the actual allocation of aid in certain fields has not been associated closely with need. These considerations suggest the desirability of improving the technical accuracy of need indicators.

Prospects for refining the measures of need employed in grant allocation formulas could be evaluated fully only after detailed study of each program and indicator. However there does appear to be a considerable body of expert opinion that improvements can be made in many areas, although there are significant obstacles and costs that might be associated with them. A 1974 study conducted by an interuniversity study team and directed by Selma J. Mushkin indicated that:

...many factors are converging to make possible a quantum improvement in aid distribution formulas, including advances in computer technology, increased sophistication in the identification and measurement of program output and productivity, greater recognition of the need for appropriate data and new information systems, new emphasis on grant evaluation and program analysis, and important steps toward advanced fiscal planning.⁴⁶

The report added:

The administrative criteria for grant-in-aid distribution formulas have emphasized simplicity of design, facility of explanation to grantee governments and legislators, objectivity of the data base on which the allocation computations are made, and currency and recurrency of the data used in the computations. There are now reasons to question whether these administrative criteria should not give way to those requiring greater precision. At a time when computer technology is available to governments and greater complexity is no major computational barrier, far greater attention needs to be directed to defining the purposes of federal aid and to specifying the criteria by which those purposes can be judged.⁴⁷

Over the past decade many social policy analysts have urged the development of more refined indicators of social problems and progress. The model for a new, comprehensive data series providing objective information concerning social conditions is the large set of economic indicators that offer insight into many aspects of the performance of the economy and that are essential for economic policy decisions. Social indicators would assist in identifying priority problem areas, following and even forecasting trends, and evaluating the effectiveness of governmental social interventions.⁴⁸ Such data also could be used in determining the most appropriate allocation of aid funds among state and local governments. Many suggestions have been made by experts in particular policy fields for the gathering of new data and the better use of existing data.⁴⁹ In a 1967 study ACIR called for the development of a

national system of social accounts and comparative standards for measuring the performance of urban governmental functions.⁵⁰

Sophisticated analytical techniques have, in fact, been brought to bear on formula allocation issues in a number of instances in recent years. Research on the GRS and community development block grant formulas are outstanding examples. Attention also has been given to the adequacy of specific indicators used in some grant formulas. The index of poverty or "Orshansky index" used in the Title I ESEA program received a detailed review by a federal interagency task force as the result of a 1974 Congressional directive.⁵¹ A nine member Presidential commission is currently examining the labor force and unemployment statistics (including those for states and local areas) that influence the allocation of more than \$6 billion in federal aid and other expenditures.⁵²

Various quantitative techniques have been suggested for use in devising improved need measures. Indicators of the need for particular services can be calculated through multiple regression equations, using as independent variables information on state fiscal capacity and the relevant population characteristics. On this basis the service level a state would provide, if it possessed resources equal to those of the average state, may be estimated.⁵³ A somewhat similar strategy has been proposed for use in improving the allocation formula for alcohol abuse grants. A "synthetic estimation" technique provides estimates of the severity of alcohol-related problems in each state from data on age, region, education, and other population characteristics that are known from past research to be related to drinking practices. This approach already has been employed in the allocation of funds for hypertension control programs.⁵⁴

Yet some social needs are inherently difficult to measure or even define. For example grants under Title I of ESEA are intended to assist students suffering from "educational deprivation." Lacking a clear measure for this concept, an assistance formula has been used which depends on the number of children aged five to 17 years that are from poverty-level families, that are from families receiving aid to dependent children allowances, or that are living in institutions for neglected or delinquent children.⁵⁵ A fully accurate formula would require a clarification of the basic concept and a means of measurement in every school district, perhaps through standardized aptitude or performance tests. It could be argued

that the costs of greater precision in such fields would not equal the benefits to be gained.

Furthermore some social analysts believe that even the best existing data on the magnitude of the most significant social problems are inadequate. For example Donald A. Schon points out that estimates of the prevalence of blindness differ greatly, with rates per 1,000 ranging from 1.5 to 5.6. He adds that his experience in other social fields suggests that "this state of the data is the norm, rather than the exception."⁵⁶

Another potential weakness of even more refined and objective measures of social needs is that they do not take into account differences in the demand or tastes for public services of various types. A closely related conceptual problem is that, according to some research, little statistical association exists between objective measures of the "quality of life" and subjective levels of resident satisfaction. "Needs," as they are measured by quantitative indicators and as they are experienced in personal terms, may be quite different.⁵⁷

Finally, program need, as usually measured, does not necessarily coincide with measures of fiscal need—the ability of a jurisdiction to pay for public services.⁵⁸ School districts in industrial neighborhoods often have poorer residents with special educational needs but frequently possess a very high property tax base. Waterways may be polluted much more in prosperous manufacturing regions than in unspoiled, but economically depressed, rural or mountain areas. Boomtown communities experiencing rapid growth may have relatively high-income residents, but still have difficulty undertaking necessary large-scale capital construction programs for schools, waste water treatment, roads, and public buildings. Some variables, such as interstate highway traffic through a state, may depend as much on geographic location as level of economic prosperity.

SUMMARY

Examination of the allocation formulas for categorical programs suggests that the need for services is the most common principle by which federal assistance is allocated among state and local governments. First used in a program to aid the blind in 1879, this principle became more important with the growth of categorical grants in the early part of this century.

The great majority of existing categorical programs include one or more factors intended to mea-

sure program need. Fifty-eight of the 146 formula-based grants use some population segment, such as an age group, or the urban, rural, or farm population. Income-related data (other than per capita income) enters into 13 programs, land area into ten, and the number of students in ten. In addition 60 grants include some other need measure not classified into these general groupings.

Although some measures of need are quite specific and may be strongly related to actual service requirements and costs, many others are only rough proxies. Moreover some research findings suggest that the actual distribution of assistance among recipient jurisdictions in certain fields is not associated closely with need. These considerations, together with the growing interest in social indicators research and advances in computer technology, suggest the possibility of reviewing and improving formulas in many areas. Several analyses of this kind have been undertaken in recent years.

On the other hand, certain types of social needs are difficult (or costly) to measure precisely or to define. Perceived needs may vary from those measured statistically. Finally, program need and fiscal need may be quite different and hence provide competing principles by which allocation formulas may be designed or evaluated.

Reimbursement Programs

A third system for allocating aid is based upon federal reimbursement for specific state-local expenditures. The basic principle is that of effort: the national government, "helps those who help themselves." Relative to others, jurisdictions that provide a higher level of service receive greater federal assistance under these reimbursement programs, at least within certain limits.

The prototypical grant of this kind is the open-end matching program. These grants do not use a formula as such; instead, the specified matching ratio constitutes the "formula." In their pure form, they also are "open-ended," in that all allowable state-local expenditures will be reimbursed, without limit. In effect program need is defined by the recipient jurisdiction themselves, through their legislative and administrative processes, rather than by relying on nationally specified statistical measures.

Open-end programs differ from the standard formula grant in a very important respect. Generally under the traditional form, a fixed appropriation of funds is allocated among recipients according to cri-

teria developed wholly by the federal government. In a pure open-end reimbursement program, on the other hand, the total amount of federal government expenditure depends on the level of activities undertaken by grant recipients, while the amount received by each recipient is determined by its own policy choices. This situation offers considerable flexibility at the state and local level but causes a degree of fiscal uncertainty at the national level.

BACKGROUND

The first major use of this device was in the three public assistance titles of the *Social Security Act of 1935*. Congress agreed to provide one-half of the cost of state payments for old age assistance and aid to the blind and one-third of the cost of aid to dependent children, subject only to limitations on the amount of aid paid to an individual recipient.⁵⁹ This early use of the open-end grant reflected the continuing dominance during the 1930s of the theory of "dual federalism," under which public relief was regarded as properly a function of the states, not the national government. Hence major policy control was left to the states, which were then free to determine their own payment levels in the light of local conditions and political values.⁶⁰ These programs precluded the establishment of fixed national minimum benefits (as V.O. Key, Jr., pointed out in a discussion of old age assistance) and initially failed to account for differences in the states' fiscal capacities. The "percentage grant," as Key termed it,

... does not set up any national minimum benefit level of assistance, leaving the determination of the amounts to be given to state and local appropriating bodies. The national "minimum" is double what the state with relatively the heaviest assistance load and the least resources can and will pay from its own revenues. . . . The range in monthly payments [for old age assistance] from \$4.08 to \$31.37 reflects, of course, factors other than the ability of the states to furnish funds, such as the customary standards of living, the cost of living, racial problems, prevailing local attitudes toward the public support of the needy, and varying degrees of income to recipients from other sources requiring more or less supplementation through cash payments. These factors would, and

probably should, bring variations in any form of grant for this purpose, but the extremely wide variations are caused primarily by the failure of the percentage grant to give any weight to the relative burdens and fiscal capacities of the states.⁶¹

Although aid to the aged, blind, and disabled was "federalized" by amendment in 1972, effective January 1, 1974, the open-end system grant has been retained in the program of benefits for dependent children and has been adopted in other programs, such as Medicaid.⁶²

FREQUENCY OF USE

The reimbursement principle, either in the open-end form or the closed-end variant, is employed in a substantial number of grants, including a few of the

most significant categoricals. *Table IV-A1* lists 28 programs in which the allocation of a federal categorical grant depends, in whole or in part, on the level of recipient expenditures. One example of such a program is the gas pipeline safety grant (20.700). The statutory formula includes two prescriptions: that state expenditures from their own funds cannot be less than the average amount expended in FY 1967 and FY 1968, and that federal reimbursement may not exceed 50% of actual expenditures reasonably required by the state agency for eligible activities. Subject to these requirements, cash expenditures made by a state are reimbursed in July and January of each year.

A variation on the reimbursement procedure provides payment at a fixed rate according to the level of services provided, rather than according to actual expenditures. *Table IV-A1* includes 16 programs in which aid payments are determined by this

Table VI-5

Grant-in-Aid Programs Utilizing an Expenditure or Program Level in Allocations, FY 1975

Budget Subfunction and Program

- 051** Civil Defense: Contributions to States for Personnel and Administrative Expenses
- 302** Cooperative Forest Fire Control
 - Forest Management, Production, and Protection: Cooperation With States
- 303** Historic Preservation:
 - Comprehensive Planning and Survey Grants
 - Grants to States for Projects
- 304** Water Pollution Prevention and Control: Waste Treatment Works Construction
- 352** Extension Services in Disadvantaged Agricultural Areas With Special Needs
 - Promoting Research in Forestry
- 404** Highways: Interstate System
- 406** State Boating Safety Program
 - State Marine Schools: Student Subsistence Payments^a
- 407** Natural Gas Pipeline Safety: Grants to Aid State Enforcement
- 501** Educationally Deprived Children:
 - Basic Grants to Local Educational Agencies
 - Special Grants
 - Special Incentive Grants
 - State Operated Programs:
 - Handicapped Children
 - Migratory Children
 - Neglected or Delinquent Children
 - Federally Affected Public Schools:
 - Construction Aid Based on Increases in Federal Activities
 - Current Expenses Aid Payments to Local Agencies

(Continued)

manner—the level of program operations. For example payments to schools under the school breakfast and lunch programs are determined by multiplying the number of meals served by a nationally fixed cost standard (10.553; 10.555). Similarly states are reimbursed on a per diem basis for providing veterans with domiciliary, nursing home, and hospital care (64.014; 64.015; 64.016). Altogether 41 programs that use one or both of these two reimbursement forms exist.⁶³ These are listed in *Table VI-5*.

Only 14 of these 41 programs fully comply with the definition of the open-end reimbursement grant, however; these are identified in *Table VI-5*. Many others employ a multifactor formula and thus depart, to some extent, from the open-end format while retaining the basic reimbursement principle of rewarding recipients with higher levels of expenditures or service. For example, contributions to states for personnel and administrative expenses for civil

defense are determined by four formula factors (12.315). Two-thirds of the funds are allocated according to the relative size of each state's total population, its "target area population," and its "support area population." Another one-third are allocated according to the ratio of actual expenditures by each state for allowable purposes to the total of expenditures by all of the states. The use of minimum and maximum entitlements, which also constrain the flexibility and open-end of the grants, is also common.

In some instances the reimbursement principle has been modified by the inclusion of a fiscal capacity measure. This situation is true for both Aid to Families with Dependent Children (AFDC) and Medicaid. Hence these allocations do not depend solely on state expenditures.

Other variations on the reimbursement theme exist. One-third of the amount of state boating

Table VI-5

Grant-in-Aid Programs Utilizing an Expenditure or Program Level in Allocations, FY 1975

Budget Subfunction and Program

- Payments Due to Sudden and Substantial Increases in Attendance
- Indian Education: Grants to Local Educational Agencies
- 504** Grants to States for Unemployment Compensation Administration^a
- Work Incentive Program for Recipients of Aid to Families With Dependent Children: Supportive Services^a
- 506** Developmental Disabilities: Basic Grants
- Public Assistance: State and Local Personnel Training^a
- Social Services: Personnel Training
- 551** Medical Assistance (Medicaid)^a
- 554** State Review of Health Facilities Capital Expenditures
- 604** Aid to Families With Dependent Children:
 - Grants for Payments to Aid Recipients^a
 - Grants for Program Administration^a
 - Child Nutrition Programs:
 - Commodity Distribution Differential Payments
 - Non-Food Assistance
 - School Breakfast Program^a
 - School-Lunch Food Assistance Programs^a
 - Special Assistance for Free and Reduced-Price School Lunches^a
 - Special Milk Program
 - Food Stamp Program: Administrative Costs^a
- 703** Veterans Hospital and Medical Care:
 - State Domiciliary Care^a
 - State Hospital Care^a
 - State Nursing Home Care^a

^aOpen-end reimbursement programs.

Source: ACIR staff compilations.

safety grants depends on the level of actual expenditures during the previous (rather than current) year (20.004). Other alternatives are found among the education grants. Basic grants to local educational agencies for educationally deprived children (Title I, ESEA) are influenced by the statewide (not local) average per pupil expenditure (13.428). Special incentive grants for educationally deprived children are based upon an "effort index," which is the ratio of all nonfederal expenditures for public elementary and secondary education in a state to the total personal income of that state (13.512).

In fiscal terms the most important reimbursement programs, by far, are AFDC and Medicaid. Under both the states themselves determine recipient eligibility and the level or nature of the services to be provided, within federal guidelines. Program costs are reimbursed on a variable matching basis, depending on per capita income. With outlays totaling \$12.0 billion in FY 1975, these two programs accounted for nearly a quarter of all grants-in-aid.

Another major grant—the interstate highway program—is identified in *Table IV-A1* as using a formula based solely on expenditure levels, but it possesses many other features of a project grant (20.205). Allocations are made to states only for projects undertaken to complete the remainder of the interstate system. However the funds received by a state in any given year do depend on the cost of construction, with the federal government paying 90%.

RATIONALE AND CRITICISM

Open-end matching grants have an explicit economic rationale as well as the political or philosophical rationale which underlay the *Social Security Act*. They are often recommended as offering the most appropriate means of sharing costs between the national and state or local governments in proportion to the benefits that accrue to each level.

This raises the question of externalities or "benefit spillouts," discussed in *Chapter II*. In some fields the benefits of a public activity go in part to nonresidents of a state or local jurisdiction. Pollution control is a clear example. In the absence of compensatory financial assistance, therefore, jurisdictions are likely to provide less of that activity than would be optimal from a national perspective. This situation theoretically can be remedied by a properly designed grant program. Grants intended to deal with the benefit-spillover problem should have

four features, according to the public finance literature:

- They should be categorical in nature.
- Matching funds should be provided according to the ratio of external benefits to total benefits.
- They should be open-end, in that the grantor will share in whatever expenditures the grantee chooses to undertake.
- Some administrative controls should be exercised by the grantor government to assure the efficient use of funds.⁶⁴

This theory, which is one of the best developed guides to the design of categorical assistance programs, suggests that much more use should be made of the open-end reimbursement technique than is now the case. As Wallace E. Oates explains,

...it requires rather peculiar preference functions to justify closed-end grants for allocative purposes. In particular, closed-end matching implies that, at a certain level of provision of the public service, spillover benefits suddenly become zero.⁶⁵

Such circumstances would be rare indeed.

On the other hand, the open-end grant may not be an appropriate device in some areas in which it is currently employed. For example the public welfare field is one in which interjurisdictional externalities are relatively unimportant in the view of some analysts.⁶⁶

Other considerations also exist. Experience has shown that the open-end approach may generate serious administrative problems. James A. Maxwell observes:

A major assumption behind the open-ended grant is that the services eligible to earn grants can be defined with fair precision and that policing is not difficult. This is not often the case. Regularly, the content of an eligible service has been, and can be, enlarged beyond what Congress intended or desired. Grants often go to segments of a state-local service, the boundaries of which are imprecise. Public assistance grants, for

example, went to categories of needy people, with some categories excluded. The evidence is that many states placed ineligible people in the categories in receipt of grants, thereby cutting back on their own spending. . . .

The conclusion which flows from these faults is that open-ended grants should be confined to services for which objective methods of testing ineligibility can be readily framed and utilized; these are rare.⁶⁷

A perceptive case study of an open-end program that got out of fiscal control, largely because of imprecise definitions of reimburseable services, has been provided by political scientist Martha Derthick.⁶⁸

Open-end grants in practice also may operate in a manner that violates standards of interstate equity. They are partly responsible for the tendency (discussed below) of states in the average income brackets to receive below-average amounts of federal assistance. Maxwell also explains this effect:

The curious sag [in per capita grants] among the middle-income states arises because of the presence of open-ended grants and of grant determinants which enable both the rich states and the poor states to enlarge their grants. . . . The public assistance grants are open-ended and, in effect, without ceilings on the payments which earn grants; many rich states, therefore, earn and receive large grants. For example, New York, which is ranked second in per capita income, 1970-72, received by far the largest per capita grant for public assistance (\$116.37) in 1973. (The average for the United States was \$56.79.) California, ranking ninth in per capita income, ranked second in receipt of per capita grants for public assistance. On the other hand, the public assistance grants also favored the poor states because they were geared to cover 75-80% of low average payments and because eligibility was very largely a matter for state decision, permitting poor states to be liberal in placing people on the public assistance roles. The result was that several states in the low-income class received per capita grants for

public assistance which were well above average.⁶⁹

Similar difficulties were experienced with the Title I ESEA formula as designed in 1965. The program uses two variations on the reimbursement principle, although it is not an open-end grant. Allocations depend in part on the number of AFDC-assisted children and the rate of spending per pupil, both of which are determined by state-local policies. The 1965 formula tended to make unexpectedly large grants to the big urban states because they had set higher welfare payment levels and broader welfare eligibility and also had above-average educational expenditures. The result was that California, New York, and New Jersey more than doubled their percentage of the national total of Title I funds between 1965 and 1972. Although the formula was modified in 1974, its basic allocation procedure was largely retained.⁷⁰

The flexibility of many open-end programs can result in standards of performance and service that vary widely among states. These differences can either be attacked as inequitable or defended as reflecting variations in the preferences of citizens in various parts of the nation. In Medicaid, for instance, a Brookings Institution study noted that "benefits vary widely by type of medical service, by basis of eligibility, by geographical area, and by race."⁷¹ Benefits are much more generous in the northeast than in the south. Moreover although nearly all of the poor receive some benefits in the northeast and west, less than one-third do so in the south. Even greater disparities exist in benefits for poor children, and urban areas are generally better served than rural ones.⁷²

SUMMARY

Allocations under 41 formula-based categorical grants use the principle of reimbursement, i.e., the level of recipient expenditures or services determines, in whole or part, the size of the federal grant. Recipients with higher levels of service or higher costs receive greater amounts of federal aid.

The pure form of a reimbursement program is the open-end matching grant. The 14 programs of this type lack a distribution "formula" as such; instead, the matching provision constitutes their formula. These grants have a well developed economic rationale, associated with the concept of benefit spillovers or externalities, and also some-

times have been employed as a way of providing federal financial support for an activity while leaving major policy choices to state and local governments. Such programs are not numerous, but a few of them—including AFDC and Medicaid—are very large in fiscal terms.

A number of important variations on the reimbursement principle have been developed. In some instances a closed-end formula is employed, but a portion of program funds is distributed among recipients according to the relative magnitude of their program expenditures.

Despite their theoretical advantages open-end grants have not been used as widely as economic analysis suggests they should, which argues for their expansion. On the other hand experience with this grant form indicates some possible disadvantages. Administrative difficulties can arise in assuring that funds are used only for the purposes specified; wealthier jurisdictions may benefit disproportionately; service levels can vary widely among the states; and, finally, because the magnitude of expenditures is determined by choices at the recipient, not national, level, these programs add to the uncontrollability of federal budget outlays.

Fiscal Equalization

A fourth common principle regarding the allocation of federal aid recognizes the significant differences in the ability of state and local governments to finance, through their own tax revenues, various public services. Certainly since the Depression, concern has arisen over “horizontal fiscal imbalance,” or the differences of tax base or fiscal capacity, as it is called. The basic principle of fiscal equity is that ascribed to Robin Hood: “Take from the rich, give to the poor.” It can be differentiated from the principles discussed previously, however, in that fiscal capacity has never in practice been employed as the sole criterion by which aid is allocated. Instead it has been used as an additional or modifying factor in connection with other kinds of formula allocation provisions. The usual indicator of fiscal capacity incorporated in a grant’s formula or matching provisions is per capita personal income.

BACKGROUND

Although the first significant use of the fiscal equalization principle appeared in grants under the *Federal Emergency Relief Act of 1933*, the actual

distribution of federal grant funds was related directly, rather than inversely, to per capita income in the years prior to World War II.⁷³ This meant that the wealthier states generally tended to receive more—not fewer—benefits. Although equalization provisions were added to a number of programs in the mid-1940s, the earlier tendency was not altered greatly. According to one study, in both 1941-42 and 1945-46, the middle-income states (as indicated by their average per capita income) received per capita grant allocations higher than those of the low-income group. In 1941 even the highest income states received grant amounts that were above those of the low-income states.⁷⁴ To a considerable degree these differences grew out of the open-end distribution system for public assistance grants (federal allocations determined by state and local expenditure levels).⁷⁵ Maxwell reported that the rank correlation coefficient between per capita income and per capita grants for public assistance in 1941 was +0.41. In that year, these grants were nearly half of all federal aid.⁷⁶

In the 1950s and early 1960s, the picture was altered as grants came to be somewhat more equalizing, although not significantly so. Using data for 1961-62, ACIR in an early report found a slight inverse relationship (-0.041) between per capita grants and per capita income. This was due, in part, to the more frequent use of equalization provisions in allocation and matching formulas, which then appeared in 23 grant programs. For that portion of assistance disbursed on an equalizing basis—\$1.3 billion of the \$7 billion total—the correlation was -0.389.⁷⁷ Some analysts suggested that other changes in the grant system also were important. M. A. Haskell argued that a portion of the equalizing relationship could be attributed to the fact that the low-income states were also, on the whole, those states with low population densities. Low-density states, in turn, received somewhat higher per capita grant allocations—especially highway grants following the passage of the *Highway Act of 1956*, which established the interstate system.⁷⁸

Deil Wright reviewed these trends, as summarized in *Table VI-6*, through the early 1960s and detected another change of direction. By 1964 the statistical association (although very weak) had again become positive, which Wright suggested was due to increased aid to the comparatively well-off urban states.

Apparently the early New Frontier programs and the greater allocation of funds

Table VI-6

Correlation Coefficients for Per Capita Federal Grants-in-Aid and Per Capita Personal Income, Selected Years, 1940-64

1940	0.31
1950	-0.03
1955	-0.28
1960	-0.01
1964	0.08

Source: Deil S. Wright, *Federal Grants-in-Aid: Perspectives and Alternatives*, Washington, DC, American Enterprise Institute for Public Policy Research, 1968, p. 45.

to urban areas reversed the equalizing pattern of federal grants. More recent data would no doubt show that Great Society programs, with their continued urban emphasis, have shifted the pattern even farther from interstate equalization.⁷⁹

These assessments indicate that the federal government has not historically followed a consistent policy of fiscal equalization in the allocation of federal assistance, and that at some points in time the wealthier states have actually received somewhat larger benefits. Although the use of equalizing provisions in grant formulas grew steadily in the 1940s and 1950s, these did not influence greatly the overall distribution of federal grant funds.

CURRENT USE OF PER CAPITA INCOME

About one-sixth of the existing formula-based grants contain provisions that seem to be specifically intended to make adjustments for the differences in the fiscal capacities of recipient jurisdictions. The measure of fiscal capacity used in these formulas is per capita income.⁸⁰ In general total personal income is a proxy for the size of the tax base in a state or locality, and population is a rough guide to its total need for services. Thus the ratio formed by these two factors is an index of the ability of a jurisdiction to finance the services that its residents require. It is, of course, only an approximation and is subject to a number of criticisms, as later discussion will indicate, but it is the best measure that can be constructed easily from the most readily available statistical data.

Table IV-6 provides a listing of 20 formula-based programs that include a per capita income factor.

Among them are five vocational education programs. Except for two environmental grants, all of the other equalizing grants are from the fields of education, social services, health, and public assistance. Even in these fields, however, only a small number of all grants take per capita income into account in determining the amount of awards. No obvious rationale accounts for the use of capacity measures in these few programs but not in other similar ones.

In addition four programs exist in which per capita income data affects the size of the required state and local matching contribution, as indicated in Table V-10: public library construction, library services, vocational rehabilitation construction, and the national school lunch program. In two grants—child welfare basic grants to states and community mental health centers construction—the income factor enters into both the formula and matching provisions. Of course in both the AFDC and Medicaid reimbursement programs, the variable matching ratio serves, in effect, as the distribution formula.

Per capita income enters into these allocation formulas in several different ways. In some instances a certain percentage of program funds are allocated among the states in inverse relation to their incomes. Income data also frequently are used to weight total population. In certain instances (as in Medicaid) the income variable is squared.⁸¹ Special incentive grants for educationally deprived children (13.512) are unique in that personal income data are used in combination with public education expenditure information to construct an "effort index," which rewards those states making the greatest use of their fiscal capacities. Thus fiscal capacity indicators appear in conjunction with need, fair share, and effort variables.

None of the five block grant programs include a fiscal capacity factor in their allocation (or, where used, matching) provisions. Per capita income does enter into GRS in both its interstate and substate allocation formulas, and is used in both fiscal capacity and tax effort measures. Altogether 25 assistance programs exist in which the ability of a recipient jurisdiction to finance public services is a factor in the allocation of assistance.

This number is quite consistent with that obtained in an earlier ACIR study, *The Role of Equalization in Federal Grants*.⁸² That report identified 23 programs, out of the total of 60 then existing, that used an index of fiscal capacity in their allocation or matching formulas. These programs represented

about 20% of all grant outlays. Although differences in program definitions make exact comparisons impossible, the total number of grants has grown substantially in the intervening years, while the number of equalization provisions has not.

A recent OMB study, using different definitions, provided some additional information. It identified 36 formula grants of all types that employ per capita income data. Local governments are the recipients of 16 of these programs and state governments of 20.⁸³ Total funds obligated under the 36 programs in FY 1975 were \$21.5 billion. (Total aid outlays in 1975 were \$49.7 billion.⁸⁴) The apparent discrepancy between the small number of income-adjusted programs and their large dollar total is a consequence of the fact that a few of the programs involved are fiscally large. Total outlays for GRS, AFDC, and Medicaid after all were slightly over \$18 billion in 1975.

Of course the inclusion of the equalization factor in a grant formula or matching provision does not necessarily result in a substantial redirection of funds to the low-income states. Much depends upon the nature of the other formula factors that are employed and their relative weights.

THE EXTENT OF EQUALIZATION

The analyses reported above for previous historical periods indicate that the overall federal aid system has never been more than mildly equalizing in fiscal terms, and at times has actually tended to

benefit the above-average income states somewhat more than those with lower incomes. Analysis of grant distribution in FY 1975 shows results that are consistent with that pattern. A report prepared by Sophie R. Dales of the Social Security Administration's Office of Research and Statistics commented:

It might be expected that, as a result of the equalization aspects of many grant programs, the poor states would receive the largest per capita federal grants and rich states the smallest. Matching formulas built into several of these programs—particularly for the federal matching of state public assistance expenditures—result, however, in relatively high federal grants. Thus, . . . the states that receive the largest per capita assistance grants include some with the highest per capita incomes in the country as well as some with the lowest.⁸⁵

The data in *Table VI-7* indicate the allocation of aid in 1975 among three income groupings of states in total and for several functional areas. Overall the high-income states receive the largest amount of federal aid in per capita terms (\$251.41), and the middle-income states the least (\$195.78). The low-income states receive an intermediate amount (\$240.35). Of the eight functional areas, only in the instance of transportation does a consistent pattern of fiscal equalization appear, with the high-income

Table VI-7
1975 Per Capita Grants in Relation to State Average Per Capita Personal Income 1972-74, for High, Middle, and Low-Income Groups of States

Income Group	Functional Area									
	Total	GRS	Public Assistance	Health	Education	Economic Opportunity/Manpower	Miscellaneous Social Welfare	Transportation	All Other	Other
High-income states ^a (17)	\$251.41	\$30.69	\$85.80	\$9.68	\$21.60	\$25.13	\$20.48	\$20.30	\$37.71	
Middle-income states (17)	195.78	26.30	50.16	7.49	18.96	19.18	20.07	24.34	29.29	
Low-income states (17)	240.35	31.50	53.78	9.60	27.76	22.42	32.11	30.03	33.16	
United States	\$228.83	\$29.23	\$66.31	\$8.86	\$21.89	\$22.41	\$22.64	\$23.72	\$33.76	

^aIncludes District of Columbia.

Source: Sophie R. Dales, "Federal Grants to State and Local Governments; Fiscal Year 1975: A Quarter-Century Review," *Social Security Bulletin*, 39, September 1976, p. 29.

states receiving the least aid, the middle-income states a middle or average amount, and the low-income states the most. (This pattern is happenstance, of course, not policy, because none of the capacity-adjusted programs are in the transportation sector.) The middle-income states are the most seriously disadvantaged, receiving the smallest per capita grant amounts for seven of the eight categories. However even the low-income group of states receive smaller benefits than the wealthiest states in four functional areas: public assistance, health, economic opportunity/manpower, and all others.

Graph VI-1 traces the historical dynamics of equalization patterns since 1950. It indicates that from 1950 through 1967, the lowest per capita grants were received by the high-income third of the states; a middle amount by the middle-income states, and the highest amount by the poorest states. The tendency was somewhat redistributive during this period. Beginning in 1968 the grant allocations of the wealthiest states surpassed those of the middle-income states and overtook even the poorest states in 1975.

Some recent research has focused on particular functional areas. A report prepared for the National Educational Finance Project examined the extent to which federal assistance to education (as measured by aid allocations per school-age child) tended to equalize the fiscal capacities of the states (as indicated by personal income per school-age child) in FY 1969. The combined allocations from ten assistance programs was shown to be mildly equalizing. Statistically significant negative (or equalizing) associations were found for only three of the ten education programs, however.⁸⁶ Despite this situation the need to equalize educational opportunities among the states has been one of the most powerful arguments for an expansion of federal assistance.⁸⁷ A study of the 1971 allocation of per capita HEW grants found only a weak tendency toward equalizing fiscal capacities although most of the capacity-adjusted programs are administered by that department. As *Table VI-8* shows the correlations between per capita income and per capita grants, although negative, are negligible for education, public assistance, and health grants, and only moderately strong (explaining 31% of the variance) for miscellaneous social welfare allocations.

THE EQUALIZATION CONTROVERSY

The data presented indicate only a modest adherence to the principle of interstate fiscal equaliza-

Table VI-8
Correlation Coefficients for Per Capita Health, Education, and Welfare Grants and Per Capita Income, 1971

	r	r ²
Health, Education, and Welfare	-0.27	0.073
Education	-0.10	0.010
Miscellaneous Social Welfare	-0.56	0.314
Public Assistance	-0.02	a
Health	-0.07	0.005

^aLess than .001.

Source: Interuniversity Study Team, *Services to People: State and National Urban Strategies*, Washington, DC, Public Services Laboratory, Georgetown University, 1973, p. 248.

tion as usually measured and defined. Differences among the states in their ability to finance public services have been recognized specifically in a small percentage of programs, and grants in several fields give disproportionate benefits to the wealthier, rather than the low-income, states.

An indepth ACIR study of the equalization issue in 1964 provided, in a series of eight recommendations, specific and detailed guidance on the circumstances in which the use of equalization provisions then seemed appropriate. In its basic policy position, the report stated:

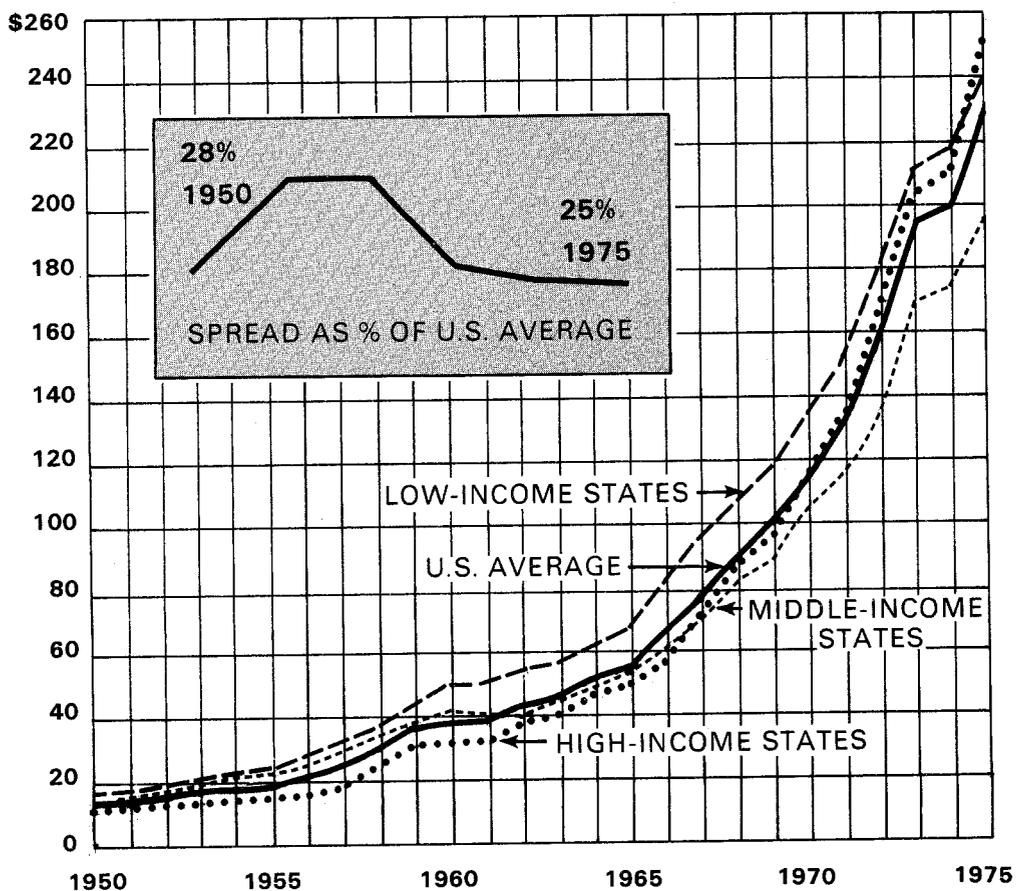
The Commission concludes that the national policy considerations which require federal grant programs require also that, with important qualifications, the distribution of federal grants among the states take account of the relative inequalities in the fiscal capacities of the states (together with their local governments) in such a way as to facilitate the achievement of a more uniform level of minimum program standards in all states.⁸⁸

Neither total interstate uniformity in total government services nor in the level of taxes was sought, because these were held to be inconsistent with a federal system. The aim of the recommendations was to provide for equalization to the point of meeting minimum service levels in functions and services specifically related to national objectives. For several categories of grants, equalizing provisions were regarded as inappropriate: (a) planning and

GRAPH VI-1

Grants Per Capita: National Average and Average of High-, Middle-, and Low-Income States, Fiscal Years 1950-75

Per capita



Source: Sophie R. Dales, "Federal Grants to State and Local Governments, Fiscal Year 1975: A Quarter-Century Review," *Social Security Bulletin*, 39, September 1976, p. 31.

demonstration grants; (b) stimulation grants (c) grants to meet localized emergencies; (d) grants that cover substantially all program costs; (e) grants (like public housing and urban renewal) in which program needs are concentrated in the high-income urban and industrial states. For the balance of the aid package (then representing about half of the number of grants and half the dollar total), equalization was thought to have a role to play.

A contrary but also widely held point of view suggests that GRS, not categorical grants, is the only appropriate federal instrument for attaining a greater degree of fiscal equality among jurisdictions. (Of course GRS did not exist at the time the Commission's position, summarized above, was formulated.) The public finance economist James A. Maxwell has advanced this position:

[I]n allocating grants, no direct recognition should be given to state fiscal capacity (by use of such determinants as inverse per capita income). It is not logical to use a general measure of state fiscal capacity . . . as a measure of state need for a particular governmental service. The allocation should be according to estimates of what would be required state by state, to lift the provision of a particular service to acceptable levels. . . .

It follows that a specific purpose grant should not employ variable-matching, i.e., that the ratio for a poor state be, say, 25-75, and that for a rich one 75-25, the limits being inverse to per capita income. Instead, it should be uniform at, say, 50-50. . . . When, as in the United States, general purpose grants were not operative, intrusion of considerations of fiscal equalization into the formulas of specific purpose grants was an indirect attempt to alleviate horizontal imbalance. But the attempt was illogical because the device was inappropriate to the task. The results show that equalization was not achieved.⁸⁹

In practice, however, the current program of revenue sharing accomplishes only a mild degree of interstate equalization of fiscal capacities. Rank-order correlation analysis using per capita federal aid data for 1974 and state personal income data for calendar year 1973 found a -0.299 association between GRS payments and income. This differed by

a miniscule amount from the coefficient for all other grants (categorical and block grants combined), which was -0.288.⁹⁰ Both types of grants were equalizing, but just slightly so—not enough to overcome the differences in the fiscal strength of the states. If three atypical jurisdictions—Alaska, Hawaii, and the District of Columbia—are excluded from the analysis, the other grant programs are found to be somewhat more equalizing (-0.418) than is revenue sharing (-0.278).

A number of other arguments have been made against the greater use of capacity-equalizing allocation factors.⁹² One important point is that the income levels of the states have been converging with the passage of time, as indicated in *Graph VI-2*. Hence the necessity for fiscal equalization has been correspondingly reduced. Another objection is that the fiscal equalization principle can conflict with other widely accepted standards by which federal aid is allocated. Jurisdictions that are needy in terms of particular services may or may not be needy financially. In such cases deciding which principle should be paramount is always difficult. For example Rep. Edward I. Koch (NY) recently proposed an amendment removing per capita income from the formula employed for child welfare services. He argued that his legislation:

. . . remedies a long-standing inequity in the allocation formulas under Title IV-B. Allocation is currently based on the per capita income and child population of a given state. This formula has tended to discriminate against urban areas where the concentration of children and families in trouble is the greatest. To enable these resources to reach the greatest number of persons in need, my bill adopts an allocation formula based exclusively on population. Each state, however, will continue to receive a minimum allocation of \$70,000 under my bill.⁹²

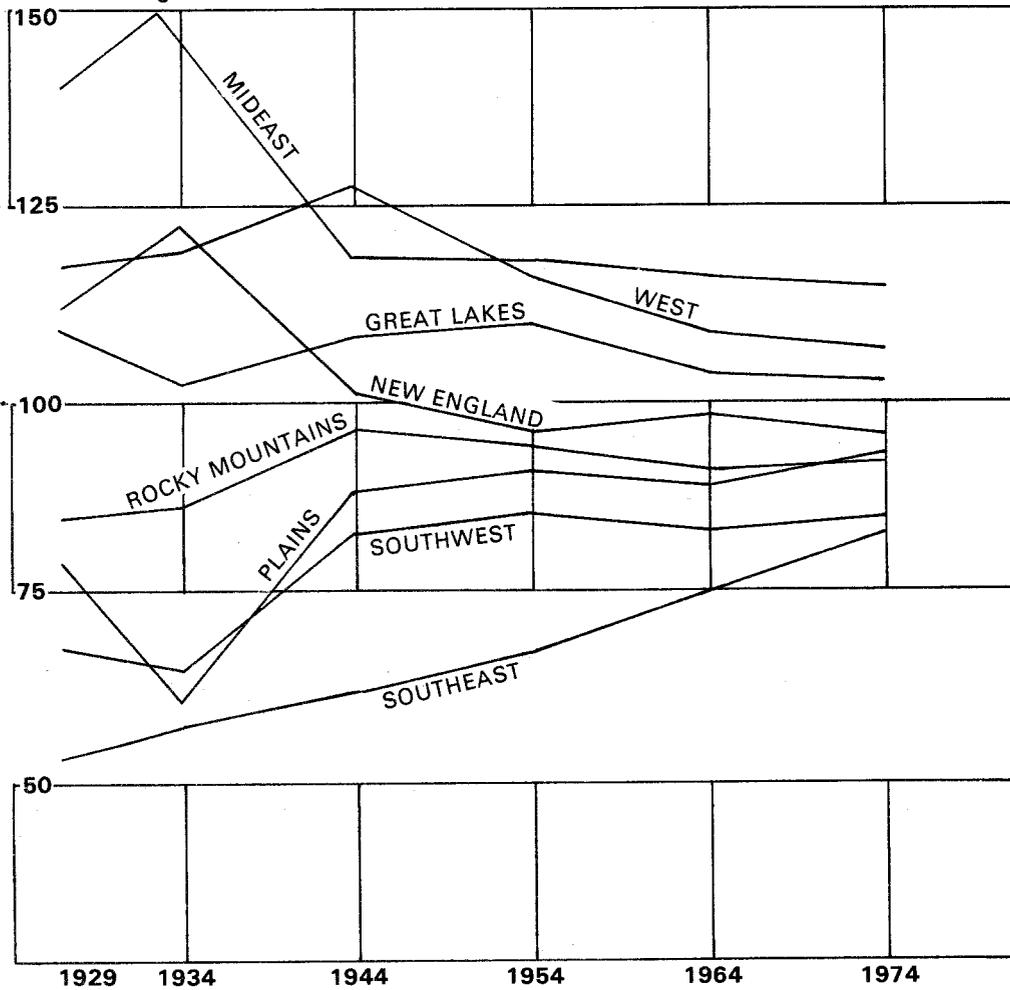
MEASUREMENT ISSUES

As indicated by the foregoing discussion, the most commonly employed measure of governmental fiscal capacity is per capita income.⁹³ This measure is included in a number of federal assistance programs, and most analyses of grant distribution have been based on the assumption that income is an appropriate and adequate measure of the ability

GRAPH VI-2

Closing The Regional Income Gap (1929-1974)

Per Capita
personal income
as a percentage
of U.S. average



Source: Michael Bell, "Closing the Income Gap Between Rich and Poor States," *Intergovernmental Perspective*, Fall 1975, p. 18.

to pay for public services. Yet despite its frequent use, per capita income is by no means a perfect measure. In fact past ACIR research has indicated that it is only a rough approximation of fiscal capacity.

Inaccuracies arise basically because per capita personal income represents the economic well-being of individuals, rather than fiscal resources of their governments. The income of resident citizens is, of course, only one of the bases on which taxes (and other revenue-producing measures) are imposed. Among the other most significant kinds of revenue sources accounting only indirectly for personal income are state corporate taxes, severance taxes, local property taxes, surpluses from public utilities, and motor fuel taxes, along with many others. Some of these taxes are "exported" to varying degrees; i.e., they are borne in some part by nonresidents. This situation is true at the state level in some cases, and is even more significant at the local level.

In two detailed studies ACIR previously has attempted to measure state and local fiscal capacities (and a related concept, "tax effort") comprehensively and directly by the use of an "average financing system" approach. This analytical technique involves the application of a hypothetical revenue structure determined by the national average rates imposed on each of the several distinct types of state-local revenue sources. On this basis the potential revenue yields for each jurisdiction for a standardized set of revenue policies can be calculated and compared. In ACIR's 1962 study this technique (termed the "representative tax system" approach) was applied solely to tax resources,⁹⁴ while in the 1971 report, a similar methodology was used for nontax revenue sources (such as charges for services provided) as well.⁹⁵ In the latter four major types of nontax revenue sources as well as 23 major classes of taxes were examined.

These studies indicated that although per capita income is generally associated with revenue capacity thus defined and measured, it is only an approximation, and well off the mark in the case of a number of states:

As would be expected, most high-income states also are above average in per capita revenue capacity, and most low-income states have less than average capacity. However, this is not always the case, nor do the two relative measures always match closely. In 24 states they differ from one

another by at least 10%.

There are only three states (Georgia, Hawaii, and North Carolina), together having 5% of the nation's population, where these two comparative measures differ by less than 2%.⁹⁶

Altogether 29 states were identified in which per capita personal income underestimates relative revenue capacity by 2% or more. As indicated by *Table VI-9*, most of these states are in the south or west. They generally had larger potential tax bases than their income alone suggested, thanks to extensive mining (severance taxes), tourism (sales and amusement taxes), or agriculture (property taxes). In the opposite position were 19 states in which per capita personal income overestimates their revenue capacity by at least 2%. Most of these states are in the northeast and north central regions and include a number of highly urbanized states that have experienced lower rates of population growth. In several of these states, relatively old residential property, a large proportion of multifamily (as opposed to single-family) housing units, and, in some instances, a concentration of service businesses with low amounts of property relative to income combine to diminish their tax base.⁹⁷

The report also included information on the revenue capacities of 215 SMSAs and 666 selected county areas. A supplement issued in 1972 provided similar data for 69 selected cities over 100,000 population, including 12 city-counties.⁹⁸ This metropolitan analysis showed a disparity between the per capita income and revenue capacity measures.⁹⁹ Per capita income data from the 1970 census was not yet available for the county areas, but a comparison with data on median family income from 1960 indicated that the range of variation in per capita revenue capacity was somewhat greater than that for per capita income in most states.¹⁰⁰

Correlation analysis for the state and metropolitan data indicated moderately strong statistical relationships between the fiscal capacity measure and per capita personal income. The correlation coefficients obtained were 0.633 at the state level and 0.623 among the metropolitan areas.¹⁰¹

PROBABLE USE

Given the greater precision of the average financing system index, some attention has been given to the possibility of employing it in federal grant pro-

grams, rather than per capita income. A model is provided by Canada, where a very sizeable fiscal equalization program provides general purpose grants to the seven less wealthy provinces.¹⁰² The revenue potential of sixteen sources are considered in determining the fiscal capacity of each province. A system of Canadian-type revenue equalization grants could be developed in the United States as

an alternative approach to GRS.¹⁰³ One key difference would be that only those jurisdictions with below-average fiscal capacities would receive any general purpose aid. GRS financial support presently is provided to all of the states and more than 38,000 units of local government.

Alternately an average financing system measure could be employed instead of per capita income in

Table VI-9

Comparison of Per Capita Personal Income and the Relative Revenue Capacity of State and Local Governments, By State, FY 1967-68

Per Capita Personal Income Underestimates Revenue Capacity (29 states)		Per Capita Personal Income Overestimates Revenue Capacity (19 states)	
At least 10% below:		At least 10% above:	
Wyoming	37	Pennsylvania	16
Nevada	31	Rhode Island	15
North Dakota	28	Connecticut	14
New Mexico	25	Massachusetts	14
Louisiana	24	District of Columbia	12
Oklahoma	19	New Jersey	12
Nebraska	16	Maryland	11
Montana	15	5% to 9% above:	
Arizona	14	Illinois	9
Florida	13	Ohio	7
South Dakota	13	New York	6
Idaho	12	Indiana	5
Washington	12	Maine	5
Mississippi	11	South Carolina	5
Oregon	11	Vermont	5
Alaska	10	2 to 4% above:	
Texas	10	Michigan	4
5% to 9% below:		Virginia	4
Colorado	9	Wisconsin	4
Kansas	8	Missouri	2
Arkansas	7	West Virginia	2
Tennessee	7		
California	6		
New Hampshire	6		
Utah	6		
2% to 4% below:			
Alabama	4		
Delaware	4		
Iowa	2		
Kentucky	2		
Minnesota	2		

Source: Advisory Commission on Intergovernmental Relations, *Measuring the Fiscal Capacity of State and Local Areas* (M-58), Washington, DC, U.S. Government Printing Office, 1971, pp. 10-11.

existing formula grant programs of aid to states. ACIR's 1971 report indicated:

Measures of state-area fiscal capacity by an average financing approach offers to the federal grant system an alternative to personal income. Because the two measures differ from one another by more than 10% in half the states, it does make a difference which of the two is chosen. . . .

The average-financing method, at the state level, provides not only another way of looking at overall capacity and effort, but also, by its nature, puts a wealth of detail at the disposal of the federal government. The individual components serve to add depth to the overall measure. Beyond that, however, they offer a wide range of ways to adjust federal grants. It would be possible to concentrate solely on business tax capacity, solely on nontax capacity, solely on residential property tax effort, etc. Further, it would be possible to re-weight the existing components in a federal-state grant. And, of course, the state fiscal data could be used for screening applications for allocating funds among the states, or in the matching ratio.¹⁰⁴

It would be more difficult to employ these fiscal capacity measures in federal-local grants. First, the necessary data are not currently available for local governments in the less populated county areas. Moreover the comprehensive metropolitan area and county-area measures aggregate data for all governments serving an area, while grants necessarily are allocated to particular governmental jurisdictions. Another difficulty is the possibility that such provisions would work against government reorganization by shoring up local governments that are hard pressed because of limited jurisdictional boundaries. For these reasons the 1971 report concluded, "any attempt to incorporate capacity or effort-adjustment factors into direct federal-local grant arrangements would need to be made cautiously and selectively."¹⁰⁵

Some technical obstacles exist to the development of fiscal capacity indices based upon the average financing system.¹⁰⁶ Certain statistical information not now available would have to be provided by the Census Bureau on a regular five-year basis. During the interval between these enumerations,

annual update estimates would be necessary. It appears likely, however, that a measure could be devised in a timely fashion that is a more faithful reflection of the actual fiscal capacities of the states and some subnational units. The 1971 report concluded:

[G]iven periodic benchmark measures of relative fiscal capacity and effort, it should be possible at modest cost to develop related year-by-year measures from existing and prospective basic data sources. Such an undertaking would yield relatively prompt comparative information not only for states but also for a considerable number of metropolitan areas and major counties that include a major fraction of the nation's population and governmental finances. To develop annual measures for all of the approximately 700 county areas with a population of 50,000 or more, however, would require considerable enlargement of the coverage of annual census surveys of local government finances.¹⁰⁷

Of course cogent arguments also exist against replacing per capita income with a measure based upon the representative tax system. ACIR's 1962 study highlighted one important objection:

A good case can also be made . . . that income is more appropriate than the yield of a representative tax system as a measure of capacity, including the use of such a measure as a basis for federal grants-in-aid in the support and furtherance of state programs. The argument runs as follows: (a) all taxes, no matter what their nominal base, are ultimately paid out of income, and income is the best measure of the ability to pay taxes; (b) property and sales taxes are less equitable than income taxes because they are not based on the individual's ability to pay; (c) state and local governments cannot abandon property and sales taxation, but the federal government would be compounding the inequity by relating its grant contributions to property and sales rather than to income.¹⁰⁸

Although the two reports discussed the possibilities of using the average financing system in

grant formulas, in neither study did ACIR offer specific recommendations on the question. ACIR's 1964 report, *The Role of Equalization in Federal Grants*, pointed to the findings of the earlier research and called upon the President, through his executive office, to:

... provide for the development of plans and procedures to assemble the data required for improving measures of state relative fiscal capacity and tax effort for use, to the extent practicable, on a government-wide basis and to collect and tabulate such necessary data on a continuing basis.¹⁰⁹

Furthermore, the Commission concluded:

... that the need is urgent to examine the federal grant programs which distribute funds directly to local governments or support local projects, in order to assess (a) the extent to which variations in local fiscal capabilities should be recognized in their distribution; and (b) the feasibility of administering equalization provisions in such grants effectively and equitably, taking account of the availability of information on the comparative fiscal abilities of local governments and on their comparative needs for aided public services.¹¹⁰

These issues, as they pertain to grant allocation, are being reexamined as a component of ACIR's present study of competition among the states and regions.

PRICE VARIATIONS

Another problem raised by the fiscal equalization issue involves the recognition of price variations or differences in the cost of providing various public services. As ACIR's 1962 study pointed out,

When relative capacity is measured by relating income, product, or representative tax yields to population, or to a more precise index of budget loads, variations in price among regions of the United States are neglected. The dollar values may merely reflect differences in wage and salary

scales and cost of living. If differences among states in per capita costs for the same quality of public services exactly matched differences in per capita income, for example, substantial uniformity in public functions and quality of services rendered could exist despite the recorded differences in capacity relative to population.¹¹¹

The report noted, however, that the information necessary to construct an index of state-to-state differences in price levels for public expenditure components was not available.

The 1971 study also dealt with the possibility of adjusting grants to reflect differences in cost levels. The discussion was in the context of a hypothetical Canadian-type revenue equalization grant, but the concept could apply to GRS or other grant programs. The report pointed out that attempting to determine the cost of a broad set of public services in each area would be an "heroic challenge." However information is available on the average monthly earnings of state and local employees, which in 1975 constituted about 50% of all state and local expenditures. One possible procedure for taking these differences into account was indicated, but with it came a warning that some such measures could provide a substantial federal subsidy for higher pay rates to public employees. This possibility could be avoided, the report suggested, by inferring governmental wage schedules from the average per capita personal income for an entire state, rather than actual wage payments.¹¹²

Such statistical manipulations seem necessary because the two major sources of cost-of-living information now published by the Bureau of Labor Statistics (BLS) are not an adequate basis for making adjustments in grant costs. The consumer price indices show changes in living costs over time, but do not provide for comparisons between areas at a given point in time. BLS's standard budget measure—which is the best existing measure of price differentials—is compiled for only 39 metropolitan areas and 4 nonmetropolitan regions. Moreover these data are not exactly comparable, because each city's index is based on a different market basket of goods. Finally, all of these data are concerned with goods and services purchased by urban families, not those purchased by governments.¹¹³

Although cost-of-living differences are not explicitly taken into account by most grant formulas,

certain allowances have been made in GRS. The 1976 reenactment provides that an additional amount of funds be allocated to noncontiguous states in which civilian employees of the federal government receive a cost-of-living allowance under Section 5941 of the U.S. Code (Alaska and Hawaii).¹¹⁴ In the original legislation the three-factor formula had a similar provision, while the five-factor formula included urbanized population as a formula factor in order to take account of the higher costs of providing public services in urbanized areas.¹¹⁵

Some types of grants do compensate automatically for price variations. This is true of both open-end reimbursement programs and project grants, because the full cost of the performance of an activity determines the amount of the federal contribution.

The desirability and feasibility of explicitly recognizing cost-of-living variations in grant allocation provisions is also being reexamined in connection with ACIR's current study of regional growth and decline.

SUMMARY

The federal government has never followed a strong, consistent policy of attempting to equalize the fiscal capacities of state and local governments. In no formula, including GRS, is fiscal capacity the sole allocation principle. Instead fiscal capacity is included along with other factors, such as indicators of program need or the level of expenditures. The number of such capacity-adjusted grants is currently rather small. Twenty categorical grants include a measure of fiscal capacity in their allocation formulas, along with GRS. Four additional programs also exist in which the size of the required state-local matching contribution varies in accordance with a fiscal capacity measure. Altogether 25 capacity-adjusted grant programs exist. Because some of these programs are quite large, these grants do represent a substantial percentage of all aid—about 40%, according to recent estimates.

In the years before World War II, the actual distribution of federal aid funds varied directly, rather than inversely, with state wealth. Grant allocations became somewhat more fiscally equalizing in the 1950s as a result of changes in the functional composition of the overall aid system as well as the growth of capacity-adjusted grants. Programs adopted in the 1960s seem to have reversed this trend, because they were directed in considerable measure toward the urban (and financially stronger)

states. As of 1975 the highest income third of the states received the largest amounts of per capita aid in toto, and this cluster received more than the group of low-income states in several specific functional areas, including public assistance, health, and economic opportunity/manpower. It is the middle-income group of states that generally receive the smallest per capita grants.

The fiscal capacity measure that is typically employed in federal allocational and matching formulas is per capita income. However past research by ACIR indicates that per capita income underestimates the tax and revenue capacity of some states and overestimates that of others. Alternative measurements can be taken through the average financing system approach. Given the availability of necessary fiscal data, an ACIR information report has demonstrated that it is possible to develop on a periodic basis reasonably accurate estimates of the total fiscal capacities of states. These could be employed in federal-state formula grants, but the development of similar indicators for units of local government would be far more difficult.

SUMMARY AND CONCLUSION

The review of historical and current practices in allocating federal aid among the states indicates that four major principles have been employed among the states: political fair share, program need, level of expenditures or services, and fiscal capacity or equalization. All were developed by the late 1940s, and each continues to be used in a considerable number of grant programs. The following points highlight the major findings disclosed:

- The earliest grants were distributed according to simple formulas that tended to reflect measures of political fairness. Some were allocated according to the number of representatives in Congress, but until the First World War, most were divided in equal shares among the states. Such political fair share criteria continue to be important; witness the use of total population as an allocational element in 28 categorical programs, the distribution of funds by equal shares in 34 programs, and the frequent imposition of minimum and maximum allocations. However only five categorical grants are now distributed entirely on the basis of either population or jurisdictional equality. Total population is more

significant among the block grant programs and GRS.

- More complex and varied allocation formulas emerged with the expansion of the categorical system after 1911 and through the Great Depression. More specific measures of program need, frequently based on the size of some particular segment of the population, were introduced. At present the program need principle is the most commonly represented in actual allocation formulas. Yet many of the formula factors are rough proxies of the need for improved or additional services or facilities and of the cost of providing them.
- After 1935 open-end reimbursement programs dominated the distribution of federal aid for many years—not because of their number, but because the three public assistance programs established by the *Social Security Act* were so large in fiscal terms. The reimbursement principle, exemplified by these open-end programs but not limited to them, is still important. Forty-one programs include a provision that allocates some or all of their funds according to the level of expenditures or level of program services undertaken by the recipient jurisdiction. Two of these, Medicaid and AFDC, account for nearly a quarter of all federal aid. These programs tend to provide large per capita grants to high- as well as low-income states, and permit considerable differences in benefit levels in accordance with state policies.
- Differences in the financial strength or fiscal capacities of the states began to be recognized in formula and matching provisions during the Depression. Variations in fiscal capacity are now taken into account in 24 categorical grants and GRS, which include per capita income as a factor in their formula or matching provisions. There has never been consistent adherence to an equalization philosophy, however, and the below-average income states generally have not received per capita benefits that were significantly larger than those with higher incomes.
- Most grant formulas combine elements based on two or more of the four allocation philoso-

phies. This point is illustrated by the common use of total population or minimum and maximum entitlements in combination with program need measures; the allocation of only a portion of funds according to expenditure or service levels; and the addition of fiscal capacity indices to certain open-end or need-based formulas.

- Changes in the functional composition of the grant system over the past six decades appear to have affected greatly the allocation of aid among states. Especially noteworthy events include the adoption of the highway program in 1916; the development of open-end public assistance programs under the *Social Security Act of 1935*; the establishment of the interstate highway system in 1956; and the rapid expansion of social welfare programs and the addition of many new categorical grants during the 1960s. Also important was the creation of a large program of GRS in 1972. As assistance for particular kinds of activities has grown, the states favored by these categories have received larger proportions of all federal aid, even if the specific formulas remained unaltered.
- The allocation of federal assistance in toto has reflected the simultaneous operation of the four allocational principles, rather than any overall national aid policy or set of priorities. Formula decisions have been made in light of the requirements of each specific program and, for this reason, inconsistently in terms of the total grant system. Aids following the alternative principles often counteract each other, resulting in general patterns that do not follow closely any of the component philosophies. The result is that interstate distributions of federal assistance in the aggregate have seemed more random than planned and have fluctuated significantly over time.

This complexity of grant allocation practices is illustrated by a recent ACIR analysis, which determined that the per capita interstate allocation of nine classes of grants could be explained statistically to only a modest extent by reference to per capita income, population, and urbanization. Generally these three need factors accounted for only about 20% to 25% of interstate differences in grant par-

ticipation.¹¹⁶ There was a slight tendency for per capita grants to be greater in the high-income states, lower population states, and less urban states.

Greater clarity and simplicity would seem to require the acceptance of one of the four allocational principles as preeminent. But this is unlikely. Most formulas result from a political reconciliation of several competing values, goals, and approaches in a context of insufficient (and often unsatisfactory) information. The overall situation is much like that which has confronted those who have assessed the operation of the complex formula for GRS. One recent report synthesized the research studies conducted for the National Science Foundation by nine different analysts, each of whom attempted to develop possible improvements in the allocation formula. The report indicated,

In making their final recommendation for change, all of the formula researchers have had to take account of the fact that what moves the formula toward a desired goal in treating one set of governments may result in violating another goal in treating a different set of governments. . . . To a certain extent, some formula goals are inherently incompatible; in other cases, there is no inherent incompatibility between the goals in the abstract, but the diversity of governments produces conflict between them. There is another source of

difficulty, in that a solution may be perfectly adequate in the abstract, but may require the collection of new data, with all that that entails, may require the collection of data that cannot feasibly be collected, or may require a decision rule that cannot reasonably be implemented.¹¹⁷

This is true also of the operation of individual programs and sets of programs in the categorical sector, as well as the block grants.

Thus the controversy over grant allocation is produced, in large part, by long-established tensions and conflicts among the four alternative grant allocation philosophies. Each approach maximizes certain values: fairness; need; effort; equalization—all are desirable, and each makes good sense from a certain perspective. For this reason each has had—and in all probability will continue to have—its advocates within Congress, the executive branch, and the public-at-large.

Although these tensions are paramount, the allocation controversy also mirrors the difficulty of operationalizing the basic philosophies, especially in measuring program need and fiscal capacity. Here, too, there are questions of political interests, but the technical component is very important. In this area there appears to be some opportunity for improvement through a careful review of existing formula provisions and additional applied research on social and fiscal indicators.

FOOTNOTES

¹Richard E. Thompson, *Revenue Sharing: A New Era in Federalism?*, Washington, DC, Revenue Sharing Advisory Service, 1973, p. 62.

²See Advisory Commission on Intergovernmental Relations, *Community Development: The Workings of a Federal-Local Block Grant (A-57)*, Washington, DC, U.S. Government Printing Office, 1977, pp. 11, 17-22.

³See David R. Beam, "'New Federalism' and the Problem of Local Governmental Diversity," paper presented at the 1975 meeting of the Midwest Political Science Association, Chicago, IL.

⁴For a discussion of the new data requirements imposed by these programs, see Albert Mindlin, "Recent Development in Federal Statistical Programs for Small Areas," *Statistical Reporter*, November 1976, pp. 44-47.

⁵Advisory Commission on Intergovernmental Relations, *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials (A-54)*, Washington, DC, U.S. Government Printing Office, 1977, p. 130. Federal grant administrators indicated far greater satisfaction with formula provisions. How-

ever, many would like to see greater recognition of variations in recipient fiscal capacity. See pp. 184, 231.

⁶"The Second War Between the States," *Business Week*, May 17, 1976.

⁷*Ibid.*, p. 112.

⁸See the case made in the influential paper by a Boston University law professor, George D. Brown, "The Relative Importance of Federal Grant-in-Aid Formulas in an Overall 'Agenda for the Northeast'," unpublished working paper, June 28, 1976 (revised July 23, 1976).

⁹"Recommendations of Federal Grant Formulas Panel to the Coalition of Northeastern Governors," Saratoga Conference, Saratoga, NY, Nov. 14, 1976, p. 2.

¹⁰For a discussion of these proposals by a panel of experts, see Federal Domestic Outlays Working Group, *A Panel Discussion of Federal Grant Formulas*, Washington, DC, Woodrow Wilson International Center for Scholars, February 1977, processed.

¹¹Martin Tolchin, "Haggling Over Aid Formulas is a Tradition in Congress," *New York Times*, March 20, 1977, p. IV-4.

¹²See, for example, the paper by C.L. Jusenius and L.C. Ledebur, *A Myth in the Making: The Southern Economic Chal-*

lence and Northern Economic Decline, Washington, DC, Office of Economic Research, Economic Development Administration, November 1976, processed, and Willis P. Whickard, "Regional Fiscal Disparities: It's Time to Clear Up the Rhetorical Smoke," *Alabama Municipal Journal*, June 1977, pp. 6-7, 21-22.

¹³*The Mayor*, Feb. 1, 1977, p. 2.

¹⁴Rochelle L. Stanfield, "Is the Man From Georgia Ready to Help the States and Cities?," *National Journal*, Jan. 22, 1977, p. 138.

¹⁵This brief history is based upon Chapter IV of Federal Security Agency, *The Principle of Equalization Applied to the Allocation of Grants-in-Aid*, Washington, DC, Social Security Administration, Bureau of Research and Statistics, September 1947.

¹⁶A maximum of \$25,000 per school was imposed. *Ibid.*, p. 37.

¹⁷For a brief account of the grant formula factors employed during later years, see the report prepared by the Congressional Research Service for the Subcommittee on Census and Population of the Committee on Post Office and Civil Service, *Federal Formula Grant-in-Aid Programs that Use Population as a Factor in Allocating Funds*, U.S. Congress, House of Representatives, 94th Cong., 1st Sess., Oct. 24, 1975, pp. 13-16.

¹⁸*Ibid.*, pp. 57-58.

¹⁹Federal Security Agency, *op. cit.*, p. 35.

²⁰Charles A. Ellett, "Study of Data Requirements of Population-Based Formula Grants," *Statistical Reporter*, November 1976, p. 52.

²¹The correlation is based upon Census Bureau information for 1975 intergovernmental revenue.

²²For example, defense contract expenditures per capita in 1975 ranged from \$763 in Connecticut to \$45 in Oregon, a factor of nearly 17, according to recent estimates. See "Federal Spending: The North's Loss is the Sunbelt's Gain," *National Journal*, June 26, 1976, p. 884.

²³Federal Security Agency, *op. cit.*, p. 68. The District of Columbia has again been omitted.

²⁴Advisory Commission on Intergovernmental Relations, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, Wage Rates* (A-61), Washington, DC, U.S. Government Printing Office, 1977, p. 32.

²⁵Numbers in parentheses are the reference number in the 1976 *Catalog of Federal Domestic Assistance* prepared by the Office of Management and Budget and published by the U.S. Government Printing Office.

²⁶ACIR, *Community Development, op. cit.*, p. 68.

²⁷*Ibid.*, p. 68.

²⁸Richard DeLeon and Richard T. LeGates, "Community Development Block Grants: Redistribution Effects and Equity Issues," *The Urban Lawyer*, 9 (Spring 1977), pp. 387-89.

²⁹Michael J. Flax, *A Study in Comparative Urban Indicators: Conditions in Large Metropolitan Areas*, Washington, DC, The Urban Institute, 1972, p. 52.

³⁰Helen DeWar, "Census Aims to Reduce Undercount," *Washington Post*, March 6, 1977, p. E-1. For a detailed analysis, see U.S. Bureau of the Census, *Current Population Reports*, Series P-23, No. 56, "Coverage of Population in the 1970 Census and Some Implications for Public Programs," Washington, DC, U.S. Government Printing Office, 1975.

³¹Mindlin, *op. cit.*, p. 44.

³²Congressional Research Service, *Federal Formula Grant-in-Aid Programs, op. cit.*, pp. 19, 41.

³³"Population and Income Estimates for Local Jurisdictions by

State," *Statistical Reporter*, July 1975, p. 13.

³⁴"Amendment to Circular No. A-46," *Statistical Reporter*, July 1975, pp. 13-14.

³⁵Ellett, *op. cit.*, p. 49.

³⁶"President Ford Signs Bill Authorizing a Mid-Decade Census," *Statistical Reporter*, November 1976, pp. 67-68.

³⁷For a discussion, see Congressional Research Service, *Federal Formula Grants-in-Aid Programs, op. cit.*, p. 16-17.

³⁸Resource Allocation Task Force, *An Introduction to Formula Grants*, Chicago, IL, Region V Federal Regional Council, July 1975, pp. 5, 19.

³⁹Michael J. McManus, "How the Northeast Finances Southern Prosperity," *Empire State Report*, October-November 1976, p. 348.

⁴⁰Mushkin and Cotton, *Sharing Federal Funds for State and Local Needs, op. cit.*, p. 57.

⁴¹*Ibid.*, pp. 71, 73.

⁴²Congressional Research Service, *Federal Formula Grant-in-Aid Programs, op. cit.*, p. 17.

⁴³Interuniversity Study Team, *Services to People: State and National Urban Strategies*, Washington, DC, Public Services Laboratory, Georgetown University, 1973, p. 246.

⁴⁴Joel S. Berke, et al., *Federal Aid to Public Education: Who Benefits?*, Syracuse, NY, Syracuse University Research Corporation, 1971, pp. 52-53.

⁴⁵Robert W. Raynsford, Jr., and Curtis C. Harris, Jr., "Foundation for a National Policy on Local Growth and Location of Federal Expenditures," *Review of Regional Studies*, II, Fall 1971, p. 13.

⁴⁶Selma J. Mushkin (ed.), *State Aids for Human Services in a Federal System*, Washington, DC, Public Services Laboratory, Georgetown University, 1974, p. 13.

⁴⁷*Ibid.*, pp. 13-14.

⁴⁸See U.S. Department of Health, Education, and Welfare, *Toward a Social Report*, Washington, DC, U.S. Government Printing Office, 1969.

⁴⁹Bertram M. Gross (ed.), *Social Intelligence for America's Future*, Boston, MA, Allyn and Bacon, Inc., 1969, pp. 5-16.

⁵⁰Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System: Metropolitan Fiscal Disparities* (A-31), Washington, DC, U.S. Government Printing Office, 1967, pp. 23-26.

⁵¹U.S. Department of Health, Education, and Welfare, *The Measure of Poverty*, Washington, DC, U.S. Government Printing Office, 1976.

⁵²See James W. Singer, "Figuring Out the Story Behind the Unemployment Figures," *National Journal*, Nov. 13, 1976, pp. 1624-25, and John E. Bregger, "Establishment of a New Employment Statistics Review Commission," *Monthly Labor Review*, March 1977, pp. 14-18.

⁵³Although these approaches seem conceptually sound, the necessary data are not available for their application in many fields. For descriptions see Richard A. Musgrave and A. Mitchell Polinsky, "Revenue Sharing—A Critical View," *Financing State and Local Governments*, Boston, MA, The Federal Reserve Bank of Boston, 1970, pp. 17-51; Gerald E. Auten, "The Distribution of Revenue-Sharing Funds and Local Public Expenditure Needs," *Public Finance Quarterly*, July 2, 1974, pp. 352-75; Stephen M. Barro, *Equalization and Equity in General Revenue Sharing: An Analysis of Alternative Distribution Formulas*, Santa Monica, CA, Rand Corporation, 1975, Appendix A; and John P. Ross, *Alternative Formula For General Rev-*

- nue Sharing: Population-Based Measures of Need*, Washington, DC, National Science Foundation, 1975.
- ⁵⁴"Methodology for Need Component of NIAAA Allocation Formula," Rockville, MD, Department of Health, Education, and Welfare; Public Health Service; Alcohol, Drug Abuse, and Mental Health Administration, February 1977, processed.
- ⁵⁵For an analysis of issues in the Title I formula, see Alan L. Ginsburg and Gail R. Wilensky, "Reforming Title I—A Study in Grant Design," *National Tax Journal*, June 14, 1971, pp. 235-49.
- ⁵⁶Donald A. Schon, *Beyond the Stable State*. New York, NY, W. W. Norton & Company, Inc., 1973, pp. 204-07.
- ⁵⁷Mark Schneider, "The 'Quality of Life' and Social Indicators Research," *Public Administration Review*, May/June 1976, p. 301.
- ⁵⁸Musgrave and Polinsky, Auten, and Barro, *op. cit.*, suggest approaches for measuring "need" and "fiscal capacity" simultaneously.
- ⁵⁹V.O. Key, Jr., *The Administration of Federal Grants to States*, Chicago, IL, Public Administration Service, 1937, pp. 334-35.
- ⁶⁰Gilbert Y. Steiner, *Social Insecurity: The Politics of Welfare*, Chicago, IL, Rand McNally & Company, 1966, pp. 245-46.
- ⁶¹Key, *op. cit.*, p. 335.
- ⁶²The states are permitted to supplement federal payments from their own resources, however.
- ⁶³Three programs include both an expenditure level and program level factor.
- ⁶⁴These points are taken from George F. Break, *Intergovernmental Fiscal Relations in the United States*, Washington, DC, The Brookings Institution, 1967, pp. 77-78.
- ⁶⁵Wallace E. Oates, *Fiscal Federalism*, New York, NY, Harcourt Brace Jovanovich, Inc., 1972, p. 89.
- ⁶⁶Bernard P. Herber, *Fiscal Federalism in the United States of America*, Canberra, Australia, Center for Research on Federal Financial Relations, the Australian National University, 1975, p. 85.
- ⁶⁷James A. Maxwell, *Specific Purpose Grants in the United States: Recent Developments*, Canberra, Australia, Center for Research on Federal Financial Relations, The Australian National University, 1975, p. 89.
- ⁶⁸Martha Derthick, *Uncontrollable Spending for Social Services Grants*, Washington, DC, The Brookings Institution, 1975.
- ⁶⁹Maxwell, *Specific Purpose Grants in the United States*, *op. cit.*, p. 83.
- ⁷⁰HEW, *The Measure of Poverty*, *op. cit.*, p. 148.
- ⁷¹Karen Davis, *National Health Insurance: Benefits, Costs, and Consequences*, Washington, DC, The Brookings Institution, 1975, p. 44.
- ⁷²*Ibid.*, pp. 45-46.
- ⁷³Advisory Commission on Intergovernmental Relations, *The Role of Equalization in Federal Grants (A-19)*, Washington, DC, U.S. Government Printing Office, 1964, p. 63.
- ⁷⁴Federal Security Agency, *op. cit.*, pp. 68-70.
- ⁷⁵*Ibid.*, pp. 69, 80, 87.
- ⁷⁶James A. Maxwell, *The Fiscal Impact of Federalism in the United States*, Cambridge, MA, Harvard University Press, 1946, p. 397. A 1955 study by Howard G. Schaller provides some additional information. He indicates the lack of statistically significant relationships between total per capita grants and state per capita income in 1929, 1939, and 1949. A lack of association also is reported for income and major functional groupings, except for the public assistance programs authorized by the *Social Security Act* in 1939, for which a weak positive relationship was identified. Howard G. Schaller, "Federal Grants-in-Aid and Differences in State Per Capita Incomes, 1929, 1939, and 1949," *National Tax Journal*, 8 September 1955, p. 295.
- ⁷⁷ACIR, *The Role of Equalization*, *op. cit.*, pp. 63-64.
- ⁷⁸M.A. Haskell, "Federal Grants and the Income-Density Effect," *National Tax Journal*, 15, March 1962, p. 107.
- ⁷⁹Deil S. Wright, *Federal Grant-in-Aid: Perspectives and Alternatives*, Washington, DC, American Enterprise Institute for Public Policy Research, 1968, p. 45.
- ⁸⁰In certain programs, the allocation of funds is affected by factors that are intended to reflect the presence of nontaxable federal property or installations. These can also be regarded as fiscal capacity measures of a specialized type.
- ⁸¹One interpretation of this practice is that income is employed twice in order to serve two different purposes—once as a measure of fiscal capacity and once as a measure of program need.
- ⁸²ACIR, *The Role of Equalization*, *op. cit.*, p. 43.
- ⁸³Ellett, *op. cit.*, p. 52.
- ⁸⁴Total aid data is readily available only for outlays, not obligations. The two measures do differ somewhat.
- ⁸⁵Sophie R. Dales, "Federal Grants to State and Local Governments, Fiscal Year 1975: A Quarter-Century Review," *Social Security Bulletin*, 29, September 1976, p. 30.
- ⁸⁶Edgar H. Bedenbaugh and Kern Alexander, "Financial Equalization Among the States from Federal Aid Programs," *Status and Impact of Educational Finance Programs*, Roe L. Johns, Kern Alexander, and Dewey H. Stollar (eds.), Gainesville, FL, National Educational Finance Project, 1971, p. 261.
- ⁸⁷Sindey Tiedt, "Historical Development of Federal Aid Programs," *Ibid.*, pp. 245-46.
- ⁸⁸ACIR, *The Role of Equalization*, *op. cit.*, p. 73.
- ⁸⁹Maxwell, *Specific Purpose Grants in the United States*, *op. cit.*, pp. 90-92. Italics in original. See also Oates, *Fiscal Federalism*, *op. cit.*, pp. 89-90.
- ⁹⁰David B. Walker, "The Changing Pattern of Federal Assistance to State and Local Governments," Washington, DC, Advisory Commission on Intergovernmental Relations, 1976, p. 25.
- ⁹¹See ACIR, *The Role of Equalization*, *op. cit.*, pp. 69-70 for a discussion of this issue.
- ⁹²Hon. Edward I. Koch, "Community-Based Day Care Treatment and In-Home Services for Families and Children—Part II," *Congressional Record*, Feb. 28, 1977, p. E1020.
- ⁹³It also should be noted that two different definitions of "income," each derived from separate sources, are employed in grant programs. See Ellett, *op. cit.*, p. 57.
- ⁹⁴Advisory Commission on Intergovernmental Relations, *Measures of State and Local Fiscal Capacity and Tax Effort (M-16)*, Washington, DC, U.S. Government Printing Office, 1962.
- ⁹⁵Advisory Commission on Intergovernmental Relations, *Measuring the Fiscal Capacity and Effort of State and Local Areas (M-58)*, Washington, DC, U.S. Government Printing Office, March 1971.
- ⁹⁶*Ibid.*, p. 10.
- ⁹⁷*Ibid.*, pp. 10-12.
- ⁹⁸Advisory Commission on Intergovernmental Relations, *An Informal Report Revision: Measuring the Fiscal Capacity and Effort of State and Local Areas*, Washington, DC, U.S. Government Printing Office, 1972.
- ⁹⁹ACIR, *Measuring the Fiscal Capacity and Effort*, *op. cit.*, pp. 22-23.

¹⁰⁰*Ibid.*, p. 27.

¹⁰¹*Ibid.*, p. 30.

¹⁰²*Ibid.*, pp. 37-38.

¹⁰³*Ibid.*, Appendix E.

¹⁰⁴*Ibid.*, p. 42.

¹⁰⁵*Ibid.*, p. 43.

¹⁰⁶These problems are considered in some detail in Chapter 6 of the Commission's 1971 report. *Ibid.*, pp. 61-69.

¹⁰⁷*Ibid.*, p. 62.

¹⁰⁸ACIR, *Measures of State and Local Fiscal Capacity*, *op. cit.*, pp. 91, 93.

¹⁰⁹ACIR, *The Role of Equalization*, *op. cit.*, p. 80.

¹¹⁰*Ibid.*, p. 81.

¹¹¹ACIR, *Measures of State and Local Fiscal Capacity*, *op. cit.*, pp. 104-105.

¹¹²ACIR, *Measuring the Fiscal Capacity and Effort*, *op. cit.*, pp. 107-110.

¹¹³Despite these obstacles, some researchers have attempted to

develop crude state cost-of-living estimates from the BLS data. See Barro, *Equalization and Equity in General Revenue Sharing*, *op. cit.*, Appendix B, for two approaches.

¹¹⁴Office of Revenue Sharing, Department of the Treasury, *PL 92-512 State and Local Fiscal Assistance Act of 1972, As Amended By PL 94-488 State and Local Fiscal Assistance Amendment of 1976*, Washington, DC, U.S. Government Printing Office, 1977, pp. 5-6.

¹¹⁵Staff of the Joint Committee on Internal Revenue Taxation, *General Explanation of the State and Local Fiscal Assistance Act and the Federal-State Tax Collection Act of 1972*, Washington, DC, U.S. Government Printing Office, 1973, pp. 24-25.

¹¹⁶ACIR, *Federal Grants: Their Effects*, *op. cit.*, p. 35.

¹¹⁷National Science Foundation, "Research Applied to National Needs," *General Revenue Sharing Research Utilization Project*, Volume 3, *Synthesis of Formula Research*, Washington, DC, U.S. Government Printing Office, 1975, p. 55.

Generally Applicable National Policy Requirements For Grant Programs

INTRODUCTION

When a state or local government receives a federal grant, chances are that the recipient becomes responsible not only for fulfilling the directly enacted purpose of the grant, but also for assuring that those funds are administered in such a manner so as to:

- redress past discrimination and prevent present and future discrimination on bases such as sex, age, race, and national origin, with respect to jobs, education, housing, public accommodations, and any other benefits of the grant program;
- provide equal access by the handicapped and disadvantaged to government benefits and opportunities;
- protect and enhance the quality of the environment;
- protect relocatees against loss due to project activities;
- ensure prevailing wages for construction workers under contract in the project;
- ensure the use of qualified public employees who are appointed and treated according to "merit principles" rather than political patronage;
- bar financial kickbacks and corruption;
- facilitate intergovernmental and interprogram coordination;
- ensure project compatibility with local, regional, and state planning;
- freely provide information about the program to the public and involve citizens and appropriate public officials in program development and implementation; and
- protect the privacy of information concerning individuals associated with or affected by the program.

This long list of national policy objectives attached to grant programs continues to grow year by year. Most originated in the 1960s and 1970s, and according to current embryonic signs, grant programs soon may become subject to additional guidelines for the purposes of conserving energy, curbing inflation, and reducing unemployment.

The objectives behind these more or less across-the-board requirements are laudable. In fact, the Advisory Commission on Intergovernmental Relations (ACIR) has been one of the major initiators of at least three such requirements: relocation, intergovernmental and interprogram coordination, and project compatibility with planning. Each provision, of course, is the most important and overriding consideration from someone's point of view, and

each provides legitimate grounds for canceling or delaying a project that does not properly accommodate the requirement. The courts are available to back up these requirements and have been used successfully for this purpose in a number of cases.

In meeting these requirements, the grantmaking federal agencies and the recipient state and local governments are supposed to keep the administration of their programs simple, inexpensive, and effective.¹

What all of this adds up to is a three-way tug-of-war. The specific program objectives enacted by Congress (the reason for the grant program) compete with a large number of generally applicable national policy objectives (to which the government is also committed) and with a series of administrative simplification efforts needed to make the programs workable within reasonable cost and time limitations. Upon encountering this complex situation, grant recipients have good reason to wonder whether or not they can comply with all of these requirements and objectives and still benefit from the program. Up to now the federal government has left recipients on their own to work their way through this situation.

Number and Types of General Policy Requirements

Table VII-1 provides a list by policy area of the major general national objectives that have been appended to the grant system to date. Many of these conditions arise from laws that were adopted without relation to any particular grant program and apply to the grant system on an across-the-board basis.

Other conditions have become a general federal policy by reason of being inserted repeatedly in individual statutes that authorize a wide range of grant programs. When these conditions automatically are included almost identically in every piece of grant legislation as a "boiler plate," they cover the grant system to nearly the same extent as the national policy requirements that arise from broader statutes. For example the minimum wage provisions of the *Davis-Bacon Act* (a law that only applies, in its own terms, to direct federal government construction contracts) have been incorporated by reference into so many individual grant statutes so as to provide the grant system with an almost uniformly mandated approach to paying prevailing wages to labor on federally assisted construction projects. On the other

hand a general policy accrued through individual program provisions may present a more variable pattern; an example is citizen participation requirements, which have been inserted widely but take many different forms.

A final type of national policy condition contained in *Table VII-1* only applies to single grant programs or closely related groups of programs but elaborates on a general policy. For example Section 16 of the *Urban Mass Transportation Act of 1964* creates a national transportation policy for the handicapped and elderly that extends the established rights of these groups in special ways to the federal mass transportation grant programs.

National policy conditions only recently have begun to attract attention from observers of the intergovernmental grant system—primarily because most of these grant requirements originated within the past 15 years. For example in *The Influence of Federal Grants*, Martha Derthick directs almost her entire attention to the administrative conditions accompanying grants-in-aid. The only exception occurs when she notes that "in the 1960s [grant conditions] have been used as instruments of at least one major social change, racial integration."² In keeping with the focus of her study, Derthick concludes that:

[Federal influence] operates primarily on the structure and process of policy-making and administration rather than directly on the substance of policy.³

Because of the growth of national policy conditions since Derthick's study, this statement has become less valid. In order to qualify for and continue to receive federal assistance, state and local governments now must achieve numerous social objectives in areas as diverse as civil rights, environmental protection, and relocation assistance, in addition to the primary objectives of the grant programs in which they are engaged.

The Function of General Policy Requirements

The general national policy conditions described in this chapter can be viewed partly as remedial measures that correct deficiencies (e.g., relocation) resulting from incrementally developed grant programs and partly as attempts to use the substantial leverage of grant programs to help implement inde-

Table VII-1

Major Sources of General National Policy Objectives Applicable to Grant Programs

Nondiscrimination

Age Discrimination in Employment Act of 1967
Architectural Barriers Act of 1968
Civil Rights Act of 1964, Title VI, VII
Education Amendments of 1972, Title IX
Education for All Handicapped Children Act of 1975
Equal Pay Act of 1963
Executive Orders 11141 (1963) and 11246 (1965), Nondiscrimination in Employment by Government Contractors and Subcontractors
Executive Order 11764, Nondiscrimination in Federally Assisted Programs, 1968
Executive Order 11914, Nondiscrimination with respect to the handicapped in federally assisted programs, 1976
Rehabilitation Services Act of 1973, Section 504
State and Local Fiscal Assistance Act of 1972
Urban Mass Transportation Act of 1964, as amended 1970, Section 16

Environmental Protection

Clean Air Act of 1970, Section 306, and Federal Water Pollution Control Act, Section 508, 1970
Endangered Species Act of 1973
Flood Disaster Protection Act of 1973
National Environmental Policy Act (NEPA), 1969
National Historic Preservation Act of 1966

Planning and Project Coordination

Demonstration Cities and Metropolitan Development Act of 1966, Section 204
Intergovernmental Cooperation Act of 1968, Title IV

Relocation and Real Property Acquisition

Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970

Labor and Procurement Standards

Davis-Bacon Act (1931, as incorporated into individual grants when enacted)
Office of Federal Procurement Policy Act, 1974
Urban Mass Transportation Act of 1964, as amended, Section 13c
Work Hours Act of 1962

Public Employee Standards

Anti-Kickback (Copeland) Act (1934, '46, '60)
Hatch Act (1939, '40, '42, '44, '46, '62)
Intergovernmental Personnel Act of 1970

Access to Government Information and Decision Processes

Citizen Participation (numerous grant programs in past three decades)
Family Educational Rights and Privacy Act of 1974 (Buckley Amendment)
Freedom of Information Act, 1974
Privacy Act of 1974

Sources: *The Federal Grants Reporter*, National Reporter Systems, Inc., 1976; Evelyn Idelson, "1976 Perspective of Title VII," *County News*, April 19, 1976, p. 9, and ACIR staff.

pendently generated national policies (e.g., civil rights). The actual implementation of specific programs often reveals unanticipated side effects, and Congress has responded to these consequences by formulating adjustments that account for overlooked values and untapped potentials for meeting broader objectives. Once the need for such adjustments is recognized in one particular program, these adjustments can be incorporated (if applicable) as future programs develop. The result is a set of generally applicable national policy conditions—broad in scope but unrelated to the goals of the programs to which they are attached.

Disjointed incrementalism in program development is likely to continue, as is the consequent enactment of general national policy requirements. This situation is indicated by the manner in which the relocation requirements were appended to the grant system. In 1964 Kenneth J. Arrow brought this out:

Now slum clearance and public housing are extremely costly, and their consequences are with us for long periods of time. It is certainly widely argued that the consequences of actual public housing have been far from ideal. *Has sufficient attention been paid to those actually displaced by the clearance?*⁴

In 1964 the answer to Arrow's question was "No." The same could have been said of other federal programs causing displacement of people and businesses, although separate but varying compensatory provisions already had begun to emerge piecemeal. Six years later Congress did make compensation of those displaced by federal programs a national policy.⁵ This policy is embodied in the *Uniform Relocation Assistance and Property Acquisition Policies Act of 1970* (42 U.S.C. 4601-4655), which applies to all grant programs as well as to direct federal actions, and establishes an important national policy condition designed to protect the rights of displacees. The *National Environmental Policy Act of 1969* (NEPA) also can be seen as a remedial measure directed toward incorporating into the grant system environmental values that had previously been ignored.

Although general national policy requirements add important considerations to the grant system, they generally are enacted with little or no consideration of other competing values. Neither Congress

nor presidential administrations have focused on the growing complexities of administering general national policy conditions or the need to prevent undue overlap or inconsistency between these requirements and existing laws establishing grant programs. In addition little attention has been paid to the conditions' overall impact on state and local participation in grant programs, although this is an important issue. Grantees have found that general national policy requirements can create conflicts with the primary objectives of grant programs when implementation is attempted.

This same piecemeal approach earlier gave rise to implementation difficulties caused by administrative conditions attached to grants-in-aid; however Congress and the executive branch eventually took some remedial actions to deal with those problems. Similar remedies, presumably, could be used to ease implementation of proliferating general national policy conditions as specific problems are brought to the attention of the federal government by grantees and are backed by supporting studies.

Although numerous complaints about compliance costs, project delays, and other difficulties have been made to the federal government in the past, formal analysis of national policy conditions only recently has been initiated.⁶ This situation exists because most of the general national policy conditions are of recent origin and have only begun to reveal their effects on state and local participation in the grant system. This chapter attempts to fill the analytical gap by (1) gathering and analyzing information that can help to determine whether or not a reform of national policy conditions is in order, and (2) suggesting possible remedial measures.

Difficulties Caused by General Policy Requirements

The general national policy conditions now attached to federal grants, listed in *Table VII-1*, are examined from the standpoint of their programmatic, administrative, and fiscal impacts on state and local grantees.

Programmatic impacts refer to the difficulties that result when recipients attempt to achieve simultaneously the substantive goals of a particular grant program and the social objectives mandated by generally applicable national policy requirements; the two sets of objectives sometimes work at cross-purposes. Also the fiscal and administrative costs of complying with national policy conditions may

become so significant that they impede the grantee's ability to achieve the primary purposes of the grant program. Thus the fiscal and administrative costs and programmatic objectives of national policy requirements intertwine to cause practical difficulties for implementation.

Analyses of existing generally applicable policy requirements have revealed four interrelated problems of major significance to state and local grantees. These problems are (1) the lack of federal awareness of the costs that national policy conditions impose on grantees; (2) the inadequacy of present federal grant allocations and other funds to meet both the basic objectives of grants-in-aid and the additional goals established by national policy conditions as presently formulated; (3) the insensitivity of national policy conditions to the diverse needs, resources, and capacities of the state and local government grantees; and (4) the ineffective interagency coordination of national policy conditions and the consequent inconsistencies among agency regulations issued pursuant to each condition.

All governmental levels involved in programs subject to general national policy requirements obviously need to work together with reasonable awareness of and feeling for each others' capabilities and roles if such requirement goals are to be achieved. Yet the overall impact of these requirements tends to be that the federal government does not know the dollar impact on state and local governments, makes little attempt to compensate for it, allows inadequate state and local flexibility in keeping these costs manageable, loads the basic requirements with administrative confusion and impediments, and too often takes a "requirements" approach rather than an "assistance" view of its compliance role. Solutions to these interrelated problems should be developed as a unified set.

The four interrelated problems cited above are examined below.

Problem 1: A lack of federal awareness of the costs that national policy conditions impose on grantees. A 1965 report by a Senate subcommittee found that little attention is devoted to the broader intergovernmental consequences of grant programs prior to enactment by Congress and implementation by federal administrators.⁷ This long-standing situation applies to both program administrators and members of Congress, has caused considerable irritation of grant recipients,⁸ and is reflected specifically in general national policy conditions.⁹

A recent example is the provision prohibiting discrimination against the handicapped in federally assisted programs, which was subjected to no public hearings and few floor debates of any substance prior to its incorporation into the *Rehabilitation Services Act of 1973*.¹⁰ Moreover the scanty legislative history and broad language of the provision prevented federal agencies from developing regulations and required Congress to further define its intent in a 1974 amendment to the *Rehabilitation Services Act*.¹¹

Similarly the Congressional decision to require recipients of community development block grant funds to shoulder the entire burden of complying with NEPA requirements for environmental impact statements was made, in the words of Sen. Henry Jackson, without an "in-depth study or evaluation of the capacity of state and local governments to assure the most basic NEPA responsibility."¹²

The failure of Congress to consider the full consequences of general national policy conditions is a manifestation of the incrementalist pattern of decisionmaking that generally marks the American legislative process. This pattern of incrementalism is, in large measure, a product of Congressional organization via committees formed primarily along functional lines.¹³ The result, too often, is an overemphasis on solving the problem at hand and an underemphasis on the variety of costs entailed in the solution.

Problem 2: The inadequacy of present federal grant allocations and other funds to meet both the basic objectives of grants-in-aid and the additional goals established by national policy conditions as presently formulated. Although general national policy conditions provide benefits to diverse groups and protect important values, state and local grantees must bear significant costs in meeting these conditions. These costs usually increase recipient expenditures required to participate in any given grant program and frequently divert resources from other recipient activities (including those covered by the grant program itself). Thus as these general grant conditions multiply, the participation costs of some grant programs may begin to outweigh their benefits. For example Section 16 of the *Urban Mass Transportation Act* has led to proposals requiring recipients of federal mass transportation funds to maintain transit fleets that are completely accessible to the handicapped. In response the Cleveland Transit Authority, for one, has claimed that the

prohibitive costs of such a provision might require it and others to refuse federal aid.¹⁴

When attaching general national policy conditions to grants-in-aid, Congress usually has not increased grant allocations to reflect the fiscal and administrative costs that such provisions impose on recipients. These added costs can interfere with the implementation of grant programs. As Carl E. Van Horn and Donald S. Van Meter state:

Policies provide financial and other resources for programs and their administration and enforcement. Funds and incentives are usually not adequate—a cause often cited for the failure of implementation efforts. . . .¹⁵

Analysis of the *Davis-Bacon Act*, for example, revealed a public housing project that was not built because the required prevailing wage rates would have resulted in a grantee labor cost that more than offset the interest subsidy offered by the government for the project.¹⁶

Compliance costs of the *Uniform Relocation Act* and NEPA also have skewed grantee decisions toward projects that do not “activate” these laws. For example some local officials have indicated that they have avoided using community development block grant funds for rehabilitation and clearance projects because of the high costs of relocation.¹⁷

National policy conditions, in effect, may be making desirable projects infeasible, even while protecting against their undesirable side effects. This situation may involve real disadvantages to the federal government as well as to the grantee. Federal goals clearly are skewed to the extent that grantees use federal funds for a narrower set of projects than Congress intended. Moreover in some instances, the compliance costs of national policy conditions give recipients an incentive to use federal grants on innocuous, noncontroversial projects and to use own-source money for projects that otherwise would have been subject to conditions such as higher Davis-Bacon wages, relocation payments, and environmental impact statements. This substitution effect may mean that the federal government loses control over projects that have a significant effect on a community or state.

There may be little that can be done about such outcome—undesirable side effects of projects clearly outweighing project benefits—short of repealing or amending the general policy objective.

But before that conclusion is reached, examination should be made of ways by which compliance costs might be reduced. For example a rigid federal requirement that all facilities must be accessible to the handicapped would be much more costly than a more flexible requirement that the needs of all handicapped must be provided for in accessible facilities. A “performance” approach to writing federal regulations, allowing and encouraging grant recipients to use their own ingenuity in meeting requirements through “least cost” solutions, could alter the financial equation on some otherwise infeasible projects without seriously compromising the general national policy objective. However this type of flexibility too often is not allowed.

Problem 3: The insensitivity of national policy conditions to the diverse needs, resources, and capacities of the state and local governments that participate in the grant system. James L. Sundquist has written:

One of the great difficulties in evolving a pattern of federal-state-local relations is the diversity of the states. The largest has seventy times the population of the smallest, and financial resources and capability extend over the same range. One state embraces a New York City, while others have no city over fifty thousand population. Some states have concentrations of minorities; others virtually none. Some states have smog; others lack smokestacks. State governmental structures and traditions are equally diverse—strong governors and weak governors, merit systems and spoils systems, high state tax levels and low state tax levels, progressivism and stand pattism. *Yet the federal government now writes one series of regulations, embodying one set of relationships with all states alike. The consequence is that it fits none precisely.* (Emphasis added.)¹⁸

Sundquist’s statement suggests that beyond the elimination of agency-inspired inconsistencies, national policy conditions need to be sensitive to the diverse needs, resources, and capacities of state and local grantees. One means of achieving this goal would be to make agency regulations issued pursuant to these grant conditions broader and more permissive. As Martha Derthick has written, “The more specific

the language of the federal requirement, the lower the federal capacity to adapt to state peculiarities...¹⁹

Broadening agency regulations would give recipients more flexibility in carrying out the national policies attached to grant funds. For example analysis of Section 16 of the *Urban Mass Transportation Act* shows that the Urban Mass Transportation Agency (UMTA) has issued regulations that allow local transit authorities to increase the mobility of the handicapped within the context of each community's particular needs and conditions.²⁰ UMTA's regulations stand in marked contrast to the hand-tying grant conditions that implement some other national policies, such as equal employment opportunity, NEPA, and the *Davis-Bacon Act*. A flexible approach for achieving compliance with national policy conditions would be consistent with the greater discretion the federal government has given state and local grantees through passage of the general revenue sharing program and the consolidation of categorical grants into block grants.

Despite its advantages, flexibility is open to complaints that federal policy is too ambiguous and that federal agency regulations do not follow the intent of Congress. Actually the provisions of most legislation for across-the-board grant requirements are stated quite generally and leave a substantial amount of discretion to administrative agencies. Too often this situation results in an undesirable lack of guidance rather than desirable flexibility. Thus providing more federal sensitivity to state and local needs without raising the level of confusion and uncertainty among recipients may be difficult. Meeting this dilemma would require extraordinary success in writing and administering agency program regulations.

Although provision of flexibility in dealing with general national policy strings on balance usually is advantageous for the grant recipient, this approach may not always serve the interests of the beneficiary or the granting agency. For example some handicapped groups have argued that UMTA's regulations would permit recipients to avoid a real commitment to the transportation needs of the disabled.²¹

Similarly many local governments that have been given the entire responsibility for NEPA under the community development block grant program have not performed their environmental duties adequately.²² An approach that provides flexibility to all grantees, therefore could result in noncompli-

ance in cases where the recipient does not have the administrative capacity to deal with the responsibilities involved or is hostile to the objectives of the national policy conditions.

A flexible approach also may involve increased costs to federal agencies. In order to give grant recipients greater discretion without slighting the beneficiaries of national policy conditions, federal agencies may have to perform a more complex and taxing role of overseeing recipient compliance activities. Broad guidelines are usually the instrument for increasing local discretion, but such guidelines are more susceptible to varying interpretations than are detailed regulations. Consequently a greater number of intentional and unintentional cases of noncompliance by grantees are likely to exist under a flexible system. Furthermore whereas detailed rules and regulations provide an effective background for highlighting grantee transgressions, a system that permits options makes identification of instances of noncompliance more difficult. For example UMTA has stated:

The April 30 guidance emphasizes that the local *level of effort* in providing mass transportation which elderly and handicapped persons can effectively utilize is what is important and what UMTA will review. (Emphasis added.)²³

However determining whether or not a community's level of effort is satisfactory would seem more difficult than inspecting a community's transit fleet for total accessibility.

In summary, broadening agency regulations for the purpose of providing all grantees with greater compliance flexibility could involve significant costs to individual beneficiaries and grantmaking agencies, although reducing costs and other difficulties for grant-receiving agencies.

Problem 4: The ineffective interagency coordination of national policy conditions and the consequent inconsistency among agency regulations issued pursuant to each condition. Although many important national policy requirements have been established by statutes covering the grant system on an across-the-board basis,²⁴ each federal agency has had to develop regulations that apply those conditions to its particular grant programs. To achieve consistency among the agency regulations developed for each general national policy requirement, nu-

merous coordinative efforts have been made at the federal level. However analysis discloses substantial evidence of agency preferences for promulgating regulations separately rather than through interdepartmental mechanisms and procedures. This approach frequently has been mandated or encouraged by Congressional actions, and dovetails with a familiar bureaucratic position taken by many federal administrators:

Efforts to achieve greater consistency and uniformity in the operation of aid programs ignore the basic fact that each program is designed to accomplish a specific public purpose; hence, [grant conditions] must be geared to the needs of the individual program and not to any abstract standardized principles.²⁵

Consequently environmental protection and relocation regulations differ from agency to agency, and state and local governments must achieve the mandated social objectives in a variety of ways.

This situation obviously creates a number of administrative problems for participants in the grant system. First, it makes compliance with general national policy conditions in an expeditious manner difficult for state and local governments because great effort must be expended in learning the individual requirements affecting each grant. Second, nonuniform regulations create confusion over what constitutes an adequate compliance effort for each national policy requirement. Third, a recipient's attempts to achieve compliance with the regulations developed for one agency's programs could be inconsistent with the procedures developed for another agency's programs. Fourth, nonuniform regulations complicate the implementation of grant programs jointly funded by more than one agency.

As a result of these administrative difficulties, state and local grantees have advocated the elimination of agency-inspired inconsistencies from grant regulations. However because agencies desire regulations that are precisely geared to their particular programs, the issue of uniform regulations for general national policy conditions clearly involves an important tradeoff between the interests of grantees and those of the agencies.

Many interest groups supporting individual programs have the same desire as federal agencies of maintaining program autonomy. Some interest groups supporting the generally applicable national

policies also support agency autonomy for fear that homogenization could lead to a "lowest common denominator" approach, under which gains won from the more sympathetic agencies might be lost.

Federal efforts to deal with the tradeoffs between individual program goals and generally applicable national policies have been associated with a number of organizational mechanisms established to coordinate the administration of general policy conditions. As shown in *Table VII-2*, variations on the lead agency approach predominate, but interagency committees also are used. In at least two cases, no coordinating mechanism exists. *Table VII-3* shows that there are overlapping coordination responsibilities in at least two of the generally applicable national policy areas.

Potentials for Easing Difficulties

National policy requirements of general applicability to grant programs have become a necessary and generally desirable part of the grant system. However they do present numerous problems of implementation. Their potential for causing interagency and intergovernmental frictions, as well as frictions between government agencies and program beneficiaries, is very real. Emergent incompatibilities among multiple goals at the project implementation level, exacerbated by administrative rigidities and friction among involved agencies and groups, cause confusion and conflict, add costs, and impose delays that frequently impede implementation of basic programs. In some cases these difficulties lead to project rejection or failure, and in general compliance with the objectives of the generally applicable national policies suffers. Funds from the various available sources may be insufficient to support full compliance; commitment to multiple objectives may not be uniformly shared among the various agencies and levels of government; and practical difficulties of an operational nature may add road blocks.

The challenge therefore is to (a) find ways to simplify these general requirements and the organizational responsibilities and authority for carrying them out, (b) reduce confusion by working toward clear and uniform standards of compliance, (c) reduce the costs of compliance, and (d) make the overall grant system more manageable by training and motivating responsible administrators at all levels and by finding better ways to pay for the extra compliance costs.

Table VII-2

Mechanisms for Coordinating the Administration of National Policy Conditions

I. Lead Agency Approach

A. Nondiscrimination

1. Services

a. Title VI, *Civil Rights Act of 1964*

—Department of Justice (under Executive Order 11764)

b. Title IX, *Education Amendments of 1972*

—Department of Health, Education and Welfare

c. Section 504, *Rehabilitation Services Act of 1973*

—Department of Health, Education and Welfare (under Executive Order 11914)

2. Employment

a. Executive Order 11246

—Department of Labor

b. Section 504, *Rehabilitation Services Act of 1973*

—Department of Health, Education and Welfare (under Executive Order 11914)

B. Environmental Protection

1. *National Historic Preservation Act*

—Advisory Council on Historic Preservation

2. Section 306, *Clean Air Act*; Section 508, *Federal Water Pollution Control Act*

—Environmental Protection Agency

3. *National Environmental Protection Act of 1969*

—Council on Environmental Quality (under Executive Order 11514)

—Office of Management and Budget

C. *Animal Welfare Act*

—Department of Agriculture

D. *Family Educational Rights and Privacy Act* (Buckley Amendment)

—Department of Health, Education and Welfare

E. *Federal Disaster Protection Act of 1973*

—Department of Housing and Urban Development

F. *Hatch Act*

—Civil Service Commission

G. *Work Hours Act*

—Department of Labor

H. *Anti-Kickback* (Copeland) *Act*

—Department of Labor

I. *Davis-Bacon Act*

—Department of Labor

II. Interagency Committees

A. *Uniform Relocation Assistance and Real Property Acquisition Policy Act of 1970*

—Relocation Assistance Implementation Committee (established by Presidential memorandum)

B. *Architectural Barriers Act of 1968*

—Architectural and Transportation Barriers Compliance Board (under Section 502 of the *Rehabilitation Services Act of 1973*)

C. *Equal Employment Opportunity Regulations*

—Equal Employment Opportunity Coordinating Council (under the *Equal Employment Act of 1972*)

III. Uncoordinated National Policy Conditions

A. *Freedom of Information Act*

B. *Privacy Act of 1974*

Source: ACIR staff compilation.

Responses to this challenge may be sought through (a) ad hoc accommodations applied on a problem-by-problem and case-by-case basis, (b) formally institutionalized coordinating procedures, and (c) reform of the generally applicable requirements. Ad hoc accommodations (e.g., interagency and intergovernmental negotiations or court challenges) are the most natural response to the existing situation, but may leave many problems untouched and may even exacerbate the overall effects of general requirements on the grant system.

The more systematic coordination approach would more likely deal with the overall problem and move toward uniform compliance on a broader front but also would be more difficult to accomplish. Even administrative coordination has its limits.

Separate and distinct requirements mandated by law often cannot be coordinated with new legislative action. Thus some requirements may need basic reforms, such as consistency amendments, consolidation with other similar ones, or repeal. The repeal option may arise in cases where the general grant requirements supplement provisions for direct federal enforcement of national policies, and where such supplementation might not be needed in perpetuity. For example basic civil rights are guaranteed by the Constitution and direct federal jurisdiction over major aspects of interstate pollution control has been established. If, in the future, these concerns should become routinely accommodated nationwide, special attention to them in the grant system might no longer be justified.

Most likely a combination of these three approaches will be appropriate to more fully accommodate the goals of general national policy requirements in the grant system. Consideration of these options follows analysis of the major national policy requirements currently applicable in a general way to federal grant programs.

Table VII-3

Multiple Coordinative Responsibilities

I. Environmental Protection

- A. Council on Environmental Quality (the EIS process)
- B. Department of the Interior (Endangered Species; Fish and Wildlife)
- C. Environmental Protection Agency (Air and Water Quality)
- D. Office of Management and Budget (A-95 process and legislative clearance)

II. Nondiscrimination

- A. Rights of the Handicapped
 1. Employment Practices
 - a. Department of Labor (contracts)
 - b. Department of Health, Education, and Welfare (grants)
 2. Architectural Barriers
 - a. Architectural and Transportation Barriers Compliance Board
 - b. Department of Health, Education, and Welfare
- B. Disbursement of Services to Groups Other than Handicapped
 1. Department of Justice
 2. Department of Health, Education, and Welfare
- C. Employment of Groups Other than Handicapped
 1. Equal Employment Opportunity Commission
 2. Civil Service Commission
 3. Department of Labor

MAJOR DIMENSIONS OF CURRENT GENERAL POLICY REQUIREMENTS

The many general national policies that have been appended to the grant system may be grouped under the following seven categories:

- Nondiscrimination
- Environmental Protection
- Planning and Project Coordination
- Relocation and Real Property Acquisition
- Labor and Procurement Standards
- Public Employee Standards
- Access to Government Information and Decision Processes

Each policy area is complex. Although a full explanation or evaluation of such broad-ranging policies cannot be made here, it is useful to briefly describe the policies in these seven areas and to highlight the main issues that have arisen during their implementation. The nature of proposed improvements currently under consideration also will be noted.

Nondiscrimination

Constitutional provisions for equal protection of the laws now have become deeply embedded in the

Source: ACIR staff compilation.

grant system through numerous acts of Congress, executive orders, and administrative regulations. In addition to the more traditional prohibitions against discrimination by race, color, or national origin, discrimination based on sex, age, and handicaps also has been outlawed. These nondiscrimination provisions fall into three groups: equal employment opportunities, rights of the handicapped, and grant benefits generally.

EQUAL EMPLOYMENT OPPORTUNITIES

Table VII-4 provides a detailed listing of constitutional, statutory, and administrative requirements prohibiting discrimination in employment and public services under federal grant programs. Title VII of the *Civil Rights Act of 1964*, as amended, (42 U.S.C. 2000) provides the basic federal prohibition against discrimination in public and private employment on the basis of race, color, religion, sex, or national origin. The *Equal Pay Act of 1963* already had outlawed wage differentials based upon sex, and the *Age Discrimination in Employment Act of 1967* added the dimension of age to job discrimination safeguards.

Title VII of the *Civil Rights Act* established the Equal Employment Opportunities Commission (EEOC) to oversee compliance, but many other agencies also are involved. Executive Order 11246, issued on September 24, 1965, established the Office of Federal Contract Compliance Programs (OFCCP) within the Labor Department to oversee job discrimination in federally assisted construction contracts under grant programs. Although the EEOC may go to court to enforce nondiscrimination in private jobs (after exhausting administrative conciliation processes and remedies), discrimination in state and local government employment must be pursued at the judicial stage through the Department of Justice. Job discrimination within the federal government is handled by the U.S. Civil Service Commission, while the most far-reaching federal aid program with a job discrimination prohibition (affecting some 39,000 units of state and local government) is the general revenue sharing program administered by the Treasury Department. The Office of Management and Budget currently recognizes 25 enforcement agencies and 13 laws, plus three executive orders, in this field.

Section 715 of the *Civil Rights Act of 1972* recognized grantee and other employers' problems that are created by this diversity of responsibilities

in the job discrimination field and established an Equal Employment Opportunities Coordinating Council. Representatives of the Departments of Labor and Justice, the U.S. Civil Service Commission, the U.S. Civil Rights Commission, and EEOC comprise this council.

Since November 1972, the Coordinating Council has made an effort to achieve a uniform federal position on employment discrimination. Several drafts have been issued since September 1973, but a major difference of opinion has emerged. EEOC wants to keep its 1970 guidelines, while the Departments of Labor and Justice and the U.S. Civil Service Commission have agreed to and issued (on November 23, 1976) a different set of guidelines for their own purposes. Treasury's Office of Revenue Sharing originally drafted its program regulations, incorporating the uniform guidelines issued by Justice, Labor, and the Civil Service, but used the EEOC guidelines when its regulations were published in final form on March 31, 1977.

This continuing lack of coordination (despite the efforts of the Coordinating Council) has received considerable attention. A July 1975 report of the U.S. Civil Rights Commission concerning job discrimination stated:

The diffusion of authority for enforcing federal equal employment mandates among diverse agencies is one of the paramount reasons for the overall failure of the government to mount a coherent attack on employment discrimination. . . . This fragmented administrative picture has resulted in a duplication of efforts, inconsistent findings, and a loss of public faith in the objectivity and efficiency of the program.²⁶

In 1976 the General Accounting Office (GAO) issued a report stating that EEOC has made limited progress in eliminating employment discrimination but noting a number of problems with the Commission's operations.²⁷ In May 1977 the Federal Paperwork Commission issued a draft report on equal employment opportunity, not only concentrating on better ways and means to simplify reporting requirements, but also highlighting the need for reorganizing equal employment opportunity responsibilities and strengthening compliance through streamlined procedures.²⁸

As a result of these reports and the ineffectiveness of the Equal Employment Opportunity Coordinat-

Table VII-4

Major Federal Legal Requirements Which Prohibit Discrimination in Employment and Public Services

Legal Authority	Enforcement Agency	Prohibited Employment	Discrimination Services	State and Local Government Coverage
Thirteenth Amendment	None	X		All employees
Fourteenth Amendment	None	X	X	All employees, programs and activities
Title VII, <i>Civil Rights Act of 1964</i> , as amended	EEOC	X		All employees except elected officials and certain appointed officials and staff in jurisdictions have 15 or more employees.
<i>State and Local Fiscal Assistance Act of 1972</i>	Treasury (ORS)	X	X	All employees, programs and activities funded by GRS
<i>Civil Rights Act of 1866</i>	None	X		All employees
<i>Civil Rights Act of 1871</i>	None	X	X	All employees, programs and activities
Title VI, <i>Civil Rights Act of 1964</i>	Justice	X	X	All employees, programs and activities receiving federal financial assistance
Executive Order 11246, as amended	Labor (OFCCP)	X		All employees in agencies participating directly in federal contracts or subcontracts
<i>Housing and Community Development Act of 1974 (HCDA)</i>	HUD	X	X	All employees, programs and activities funded under HCDA
<i>Comprehensive Employment and Training Act of 1968 (CETA)</i> , as amended	Labor	X	X	All employees, programs and activities funded under CETA
<i>Omnibus Crime Control and Safe Streets Act of 1968</i> , as amended	Justice & HEW	X	X	All employees, programs and activities receiving funding under the act
Title IX, Education, Amendments of 1972	HEW	X	X	All employees, programs and activities receiving federal funding in education
<i>Public Health Service Act</i> , as amended	HEW		X	All applicants for admission to medical and nursing schools receiving federal funding
<i>Equal Pay Act of 1963</i> , as amended	Labor	X		All employees except elected officials and certain appointed officials and staff
Merit System Standards	Civil Service Commission	X		All employees funded under designated federal grant-in-aid programs except for certain high level officials, confidential staff, part-time professional health personnel, employees hired on a project basis and unskilled labor
<i>Intergovernmental Personnel Act of 1970 (IPA)</i>	Civil Service Commission	X		All employees funded under IPA
Executive Order 11141	Contracting Agency	X		All employees in agencies participating directly in federal contracts or subcontracts
<i>Age Discrimination in Employment Act of 1967</i> , as amended	Labor	X		All employees except elected officials and certain appointed officials and staff
<i>Rehabilitation Act of 1973</i> , as amended	Labor (OFCCP)	X	X	All employees in any programs or activities receiving federal financial assistance and all employees funded by federal contracts or subcontracts of \$2,500 or more
<i>Vietnam Era Veterans Readjustment Act of 1974</i>	Labor (OFCCP)	X		All employees in agencies participating directly in federal contracts or subcontracts of \$10,000 or more.

Source: Evelyn Idelson, "1976 Perspective of Title VII," *County News*, April 19, 1976, p. 9.

ing Council, Congress is considering remedial legislation. For example Congressmen Don Edwards (CA) and Robert F. Drinan (MA) introduced the *Civil Rights Amendments Act of 1977* on February 17, 1977. This bill would comprehensively revise Title VII of the *Civil Rights Act of 1964* and substantially reorganize the nation's equal employment opportunity programs.²⁹ The Carter Administration's effort to reorganize the executive branch also is focusing on this topic.³⁰

RIGHTS OF THE HANDICAPPED

Discrimination against the handicapped has received attention only relatively recently compared with other types of discrimination—in part because the handicapped were a less visible and vocal minority than other discriminated groups, despite estimates that the handicapped account for from 10% to 35% of the population.³¹ However discrimination against the handicapped also is of a different nature because it generally results from a lack of public attention to special provisions for the handicapped rather than from intentional actions to discriminate.

Rights of the handicapped were not mandated until 1968 when the *Architectural Barriers Act* was passed and 1970 when the *Urban Mass Transportation Act of 1964* was amended (Section 16) to mandate equal accessibility to public buildings and transportation. In 1973 Section 504 of the *Rehabilitation Services Act* provided that no person should be excluded from participation in or denied the benefits of any program or activity receiving federal financial assistance. 1975 saw the enactment of the *Education for All Handicapped Children Act*. Finally Executive Order 11914 was issued in 1976, assigning to the Department of Health, Education, and Welfare (HEW) overall responsibility for coordinating a governmentwide effort toward nondiscrimination against the handicapped.

The overall impact of these provisions for the rights of the handicapped has been relatively small to date. Each agency individually had to apply the *Architectural Barriers Act* to its own programs from 1968 until 1973, when the Architectural and Transportation Barriers Compliance Board (ATBCB), under the chairmanship of the Secretary of HEW, was established to bring about some coordination among nine federal agencies. In addition that act originally applied only to new construction supported by a limited number of federal aid programs

that already imposed construction standards. Later provisions in Section 504 broadened this applicability and strengthened the authority of HEW to coordinate a governmentwide approach going beyond the ATBCB mandate. However HEW only has issued Section 504 guidelines for its own programs. The full implications of the current policies for interagency coordination and uniform compliance in this field have not emerged.

Nevertheless the general nature of issues that can be expected to arise is evident from the substantial work already undertaken in the field of public transportation. For example UMTA has spent substantial research funds to develop prototype buses with greater accessibility by the handicapped and has mandated that all new buses purchased with federal funds after February 15, 1977 must have certain characteristics representing a compromise between existing buses and the prototypes. UMTA also has issued guidelines requiring aided communities to make special efforts to provide for the needs of the handicapped through locally determined means where these persons are not adequately served by the new buses. This approach is flexible and has developed over a period of years out of substantial controversy. UMTA believes that this approach is within reasonable economic bounds, but handicapped groups still object to the potential for "special efforts" to segregate them from the general public by meeting their needs with special vehicles and inferior service schedules.

HEW encountered the same issue in developing guidelines for its own programs under Section 504 of the *Rehabilitation Services Act of 1973*. Part B of that section deals with employment practices, while Part C deals with ensuring accessibility to benefits in a broad range of programs (including those offered in existing facilities that might have to be structurally modified to meet federal accessibility standards). Although HEW considered only indirectly the administrative burdens of grantee compliance, it did give major attention to the cost consequences of direct measures needed to assure nondiscrimination for the handicapped.

HEW's regulations were among the first to be developed under the provisions of Executive Order 11821 (issued in 1974) requiring an inflationary impact statement.³² This statement analyzed the draft guidelines in terms of costs to grantees and benefits to the handicapped. The analysis resulted in the drafting of provisions allowing grantees a three-year period to reach compliance and some flexibility

in developing compliance practices that "take into account the cost or difficulty of eliminating discrimination in establishing the standards for what practices constitute discrimination. . . ." ³³

The provision for grantees to make reasonable efforts to accommodate the handicapped in relation to the size of their own programs and fiscal capabilities drew many adverse comments because of its potential for providing services that are different for the handicapped than are available to the general public. However no special funds are provided by Section 504 to help grantees meet the extra costs of ensuring full rights for the handicapped, some of which clearly will be heavy. On the other hand funds from other federal grants may be applied to this objective.

Both HEW and UMTA have permitted grantees some flexibility in meeting the needs of the handicapped. Potentially significant differences exist in the way these provisions are formulated, however. As HEW develops its governmentwide guidelines in this area, it will face the difficult task of accommodating the varying views of other agencies within a common approach that recognizes both the fiscal and administrative limitations of government action regarding the established rights of the handicapped.

GRANT BENEFITS GENERALLY

The most general set of nondiscrimination requirements attached to the grant system arise under Title VI of the *Civil Rights Act of 1964*. This title provides that "no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance." ³⁴ Although Title VI does not cover sex discrimination, that ban has been attached individually by Congress to a number of specific program statutes, and granting agencies generally have adopted Title VI enforcement procedures for this additional dimension of discrimination. ³⁵

The *Civil Rights Act* places responsibility on each federal agency to assure that its grant programs are subject to nondiscrimination regulations. Although voluntary compliance is emphasized, recalcitrant grantees are subject to termination of their grants and/or ineligibility for extensions or future funding.

Executive Order 11247, issued in 1965, gave the Attorney General responsibility for assisting agencies

to coordinate their Title VI activities. This was superseded by Executive Order 11764 on January 21, 1974, when the Attorney General was given authority to prescribe Title VI procedures and to require federal granting agencies to act in accordance with them. Under this authority the Attorney General has developed uniform provisions for (a) nondiscrimination in site selection, (b) affirmative action to compensate for past discrimination, and (c) equal employment opportunities under grant programs required to avoid discrimination in resulting facilities and services.

Although a clear law prohibiting discrimination in all grant programs has existed for more than a dozen years, discrimination continues to exist in some. Clear authority for coordinating a governmentwide approach has been identified for only three years, and lack of federal leadership has been charged.

In a thorough study of the history of Title VI (through mid-1975), John Hope II (who participated in much of that history) has documented the inability of the Office of Management and Budget (OMB) to effectively enforce civil rights activities through the budget process, the lack of a strong interagency coordinative role in the Department of Justice, and the subordinate position and relative ineffectiveness of civil rights units and personnel in almost all the 25 or so grantmaking departments and agencies. ³⁶ He summarizes the record in this fashion:

In general, efforts to enforce Title VI have been either ineffectual, extremely slow in coming, or nonexistent. While the government was busily adopting new business management techniques (for example, management-by-objective, or MBO) for tracing the work of the federal bureaucracy through the use of written goals, time tables, milestones, and other means, the enforcement of the civil rights and equal opportunity goals of the country was somehow left out of the sophisticated management control devices. Elaborate data collection systems were organized for monitoring the management of most government programs, and could easily have included the racial and ethnic data needed to monitor the nondiscriminatory delivery of services by federally funded agencies. . . .

[Noting] . . . the woefully inadequate

Department of Justice performance in coordinating Title VI grants-in-aid . . . [he points out that] . . . The deviation of the day-to-day practices from the policy norm varies widely from program to program, from one federal administering department to another, and from one geographical area to another within the same department.³⁷

A 1977 report by the U.S. Commission on Civil Rights also found a lack of adequate leadership and effectiveness throughout the federal government and noted that the federal regional councils, which have been charged with coordinating the delivery of federal grant programs, have been weak mechanisms on which to rely.³⁸ The report concludes that an improved capability to “monitor, direct, coordinate, and improve federal civil rights programs” is needed, and makes 26 detailed recommendations for improvements in the White House, OMB, the federal regional councils, and the federal executive boards. An earlier report by the Civil Rights Commission found many similar problems and needs in the Title VI enforcement efforts of the individual federal departments and agencies.³⁹

Aside from these issues of leadership, effectiveness, and coordination in the administration of Title VI, questions also arise concerning overlap between this title and Title VII of the act (dealing with equal employment opportunities) as well as with Title VIII of the *Civil Rights Act of 1968* (concerning fair housing). The crucial role of housing in locating people close to or far from other governmental services, benefits, and facilities is well known,⁴⁰ and equal employment opportunities under grant programs are enforceable through Title VI as well as through the more general Title VII. Thus all three titles must be administered consistently and cooperatively to avoid confusion and ineffectiveness. Yet no structure of government is designed to accomplish this goal.

The costs of fully and promptly complying with Title VI also could cause severe problems because of the need to compensate for past discrimination while avoiding present and future biases. These costs must be met from the regular grant funds or from the grantees' own sources of funds, because no special funds are available for Title VI purposes.

The question also arises of how and when to enlist state and local civil rights offices in the enforcement of these federal mandates. A recent report found

that 40 states now have fair employment statutes and about 35 have fair housing laws.⁴¹ The recent trend is for agencies of the federal government to defer their own civil rights enforcement activities until state agencies have had an opportunity to act. Noting that “only one federal civil rights agency—EEOC—provides financial support to state civil rights units” and that the capabilities of state and local civil rights units vary greatly from one to another, that report concludes:

Differences in federal and state law and procedure cause chaos in processing and resolving civil rights complaints deferred to the states. These differences are compounded by the lack of communication among the agencies. An artificial and largely negative attitude has developed that a civil rights complaint is a “federal” or a “state” concern, but not the concern of both. What is often lost is an active concern for, and accountability to, the individual who has suffered discrimination. Accordingly, it is concluded that the process of civil rights deferral is not working properly. . . . Significant changes in the current system are clearly dictated.⁴²

OVERVIEW

Nondiscrimination provisions probably are the most numerous and far reaching of any set of general national policies applicable to the grant system. Every grantmaking federal agency is subject to at least some, and increasingly the scope has grown beyond race, color, and national origin to encompass sex, age, and handicaps. Enforcement of these policies can generate difficult social confrontations as well as substantial administrative and program costs. Serious problems of coordination and effective compliance clearly remain unresolved.

Environmental Protection

The *National Environmental Policy Act of 1969* (NEPA) provides that all proposed federal plans, programs, regulations, permits, and financial assistance programs, including loans as well as grants, must be reviewed to determine whether or not they will have “significant impact” on the environment. If it is found that they may have such an impact, a detailed environmental impact statement (EIS)

must be prepared and considered before the proposal may be funded. Executive Order 11514 (dated March 5, 1970) gave the Council on Environmental Quality (CEQ), which was established in the executive office of the President by the 1969 act, responsibility for governmentwide coordination of the environmental impact requirements. This order was supplemented by one issued on May 24, 1977, which strengthened CEQ's authority to require compliance with its coordinative management efforts.

A number of other acts and executive orders establish environmental standards and practices that must be considered in the review process. These provide that the air must be kept clean; water pollution must be minimized and drinking water made safe; fish, wildlife, and endangered species must be protected; wild and scenic rivers as well as national trails must not be encroached upon; historic and archaeological sites must be protected; wetlands and coastal zones must be protected; and floodplains must be protected and managed so as to minimize flood disasters.

The environmental review system overseen by CEQ develops and makes publicly available information on these matters, but implementation of the various standards is the responsibility of other federal agencies. For example the Environmental Protection Agency (EPA) enforces the air and water standards while the Department of Interior is responsible for fish, wildlife, and endangered species. Actions affecting floodplains and wetlands, on the other hand, are up to each individual agency, subject only to general guidance by and reporting to CEQ and the Water Resources Council. Environmental

impact reviews therefore constitute the integrative factor in environmental protection, but they cannot actually cause integration to take place.

The effect of the EIS process since 1969 has been substantial. It unquestionably has increased public involvement in federal agency decisionmaking.⁴³ A six-year analysis of the process issued by CEQ, and recent reports by the General Accounting Office (GAO) and the Federal Paperwork Commission, have shown that 70 federal agencies have been involved and other levels of government, as well as the public, also have made a substantial contribution.⁴⁴ Nearly 7,000 draft EISs were filed between 1970 and 1975, costing several hundred million dollars per year. In addition 650 law suits were initiated between January 1, 1970, and June 30, 1975. One-third of these cases were dismissed at the trial court level, while 60 produced temporary injunctions delaying projects. Only four resulted in permanent injunctions.

The sheer volume of work has been heavy. *Table VII-5* gives an example of average times and costs of the EIS process in the field of transportation. Although figures are not available concerning the number of projects possibly withheld or withdrawn from federal funding because of the EIS requirements, nor showing the dollar cost added to projects to make them environmentally acceptable, these impacts also are believed to be substantial.

The three studies mentioned above confirm the usefulness of the environmental review process but conclude that improvements are needed. These improvements tend to concentrate in the administrative and procedural areas.

Table VII-5
Average Time and Costs of the EIS Process, Federal Aid Highways

Item	Time Range	Average Used In This Estimate	Costs ^a
Prepare draft EIS	3-12 man months	7½ man months	\$11,250
Printing and Circulation Costs	(Range \$300-\$2,000)		600
Prepare final EIS	6-9 man months	7½ man months	11,250
Printing and Distribution Costs	(Range \$300-\$2,000)		600
Project Average			\$23,700
Estimate 200 statements processed per year.			
Total Estimated Statement Costs \$4,740,000.			

^aBased on estimated cost of \$1,500 per man month.

Source: U.S. Department of Transportation, Federal Highway Administration, "Estimated Costs and Time Delays Associated with Integrating Environmental Concerns with the Federal-Aid Highway Program," November 1975.

First, many EISs are much too long. The Federal Paperwork Commission found that these statements take too long to prepare (thereby delaying projects), are too costly, and involve too much reading time. In short they are less useful than they might be to decisionmakers.

The lack of uniform regulations also have been a problem. The Federal Paperwork Commission found that individual agency EIS regulations vary widely as to terminology, preparation procedures, and review periods. No consistency exists about (a) the level of detail required in a satisfactory EIS; (b) the division of labor between grantees and federal agencies in preparing required statements; (c) the stages of a project at which the environmental evaluations are to be started, submitted to the public, or finished; and (d) required formats. Substantial differences exist between federal agencies concerning what constitutes a "major" action with an impact "significant" enough to make it subject to the EIS requirement. EISs also are not required to take into account state and local planning. Finally there is no uniform approach with respect to preparing EISs for major plans and programs or groups of projects, as differentiated from individual projects, although this could make a substantial difference in the evaluation results as well as in reduced EIS costs and delays. These variations allow grantees to shop around for grants from agencies with the "easiest" environmental review requirements. But they also cause great confusion among those grantees involved with more than one federal agency.

The problems arising from lack of consistency among agencies are magnified when an individual project or a set of highly related projects is being sponsored jointly by two or more federal agencies. CEQ guidelines request joint federal agency action in these cases and recommend the use of the lead agency concept. Yet these guidelines have not been mandatory to date, and substantial confusion and delay has arisen in many of these situations.

Exacerbating the federal inconsistencies are overlapping federal, state, and local environmental requirements, as well as lack of prior coordination between federal EIS preparation and state and local government decisionmaking. The uneven delegation of environmental review responsibilities from the federal level to state and local agencies also has been troublesome. Coupled with the reluctance of federal agencies to accept environmental reviews prepared under state and local law, this uneven delegation has added a disconcerting source of duplication.

For example the federal highway program delegated federal EIS responsibilities to the state under a "certification acceptance procedure," and community development block grant legislation specifically authorizes the Department of Housing and Urban Development (HUD) to delegate its entire EIS responsibilities to those local grantees found capable of assuming them. At the same time, however, most agencies rely on requiring grantees to submit certain information that the agencies can incorporate into their own impact statements.

Congress amended NEPA in 1975, under pressure of a court challenge, to clarify federal agency authority for appropriate state agencies to be given EIS responsibilities. The delegation of EIS authority to local units under the community development program have not faced legal challenge but has brought to light difficulties in preparing adequate statements at this level. Thus there are practical problems and apparent needs for technical assistance at both state and local levels if delegations of authority to grant recipients are to be effective.

Lacking such efforts the potential for duplication is substantial. As *Table VII-6* shows, 19 states (plus Puerto Rico) have comprehensive EIS requirements, while 14 states have limited requirements. Only 17 states have no environmental impact requirements of their own.

In summary NEPA has created difficulties for state and local grantees similar to those in other general policy areas. The law has been administered inconsistently by granting agencies, causing recipients to deal with a multiplicity of procedures and to be subjected to unnecessary costs and delays. Little has been done thus far to ameliorate these problems, but the 1977 executive order strengthening CEQ's coordinating authority is a hopeful sign. Proposals for streamlining the EIS process recently have been made by CEQ, GAO, and the Federal Paperwork Commission. These proposals indicate a substantial consensus on the need to move toward greater uniformity.

Planning and Project Coordination

Section 204 of the *Demonstration Cities and Metropolitan Development Act of 1966* required that a variety of physical development programs in metropolitan areas be submitted for review and comment by the area's metropolitan planning agency before being funded by the appropriate federal agency. Under authority of Title IV of the *Inter-*

Table VII-6
EIS Status in the States

State	Legislative EIS Requirements				Admin. Imposed "NEPA"	No Current Require- ment	Local Government Application		Public Projects Only	Publicly Permitted Private
	General "NEPA"	Other	Limited Coastal	Other			Mandated	Optional		
Alabama			X							X
Alaska						X				
Arizona					(1)					X
Arkansas				(2)						X
California	(3)		X				X			X
Colorado				(4)				X		X
Connecticut	(5)								X	
Delaware			(6)							X
Florida				(2)		X				X
Georgia						X				
Hawaii			X	(7)				X		X
Idaho						X		X		(8)
Illinois						X				
Indiana	X								X	
Iowa						X				
Kansas						X				
Kentucky						X				
Louisiana				(9)						X
Maine						X				
Maryland	X							X	X	(8)
Massachusetts	(10)							X		X
Michigan					(10)					X
Minnesota		X								X
Mississippi			X							X
Missouri						X				
Montana	X						X			X
Nebraska						X				
Nevada				(2)						X
New Hampshire				(11)						X
New Jersey			X		(12)			X		X

(Continued)

Table VII-6
EIS Status in the States

State	Legislative EIS Requirements				Admin. Imposed "NEPA"	No Current Require- ment	Local Government Application		Public Projects Only	Publicly Permitted Private
	General "NEPA"	Other	Limited Coastal	Other			Mandated	Optional		
New Mexico					X				X	
New York				(2)	X			X	X	(8)
North Carolina	(10)							X	X	(8)
North Dakota						X				
Ohio						X				
Oklahoma						X				
Oregon						X				
Pennsylvania				(13)						X
Rhode Island			X							X
South Carolina						X				
South Dakota		(3)							X	
Tennessee						X				
Texas					X					X
Utah					X					X
Vermont		X						X		X
Virginia		(14)							X	
Washington	X		X				X			X
West Virginia						X				
Wisconsin		(5)								X
Wyoming					X			X		X
District of Columbia						X				
Puerto Rico	X								X	

(1) Only for water-related developments (abridged NEPA).

(2) For utility plant siting.

(3) Add "mitigation" and "growth-inducing aspects."

(4) Optional within interdisciplinary approach.

(5) Adds summary of economic cost and benefit.

(6) Industrial only.

(7) Plus amendments to state or county general plans.

(8) For local governments only, the EIS applies to both public and publicly permitted projects.

(9) Involving "scenic" rivers.

(10) Abridged NEPA requirements.

(11) Sewage and wetlands controls only.

(12) For private acts (mainly industrial) requiring multiple permits.

(13) Solid waste, streams and surface mining.

(14) Add "mitigation."

Source: International City Management Association, *Management Information Service, Report: Environmental Impact Statements: Preparation and Review by Local Governments*, 7, June 1975, pp. 3-4.

governmental Cooperation Act of 1968, this review requirement was extended to nonmetropolitan areas and to a much broader range of federal aid programs. Although HUD originally was in charge of this review process, Congress passed HUD's appropriation act in 1967 with a prohibition on its use of funds for administering the process, and the President transferred responsibility to the Bureau of the Budget (now OMB). Following passage of the *Intergovernmental Cooperation Act* in 1968, OMB issued new, more comprehensive rules (Circular A-95), and the review and comment process now is known by the number of that circular.

By the time A-95 was issued in 1969, considerable experience had been accrued with planning review processes. Prior to the Section 204 requirement of 1966, several individual programs already had required such reviews. The *Housing Act of 1954* required that urban renewal projects be developed consistent with integrated land use, transportation, and public facilities planning. This provision required planning reviews and formal findings of consistency by the local government. Although only local planning actually was required for this purpose, the 1954 act noted that similar consideration should be given to any comprehensive metropolitan or areawide planning that might exist.

Similar requirements for planning reviews were applied to HUD's open space program in 1961, to the federal aid highway programs in 1962, to the urban mass transportation programs in 1964, and to HUD's basic water and sewer facilities program in 1965. The Section 204 requirement called for review of applications under more than 30 federal grant and loan programs assisting public works projects and planning for physical development.

Circular A-95 at the outset covered 50 programs. This number jumped to almost 100 in 1971 and continued to grow thereafter. A 1975 report by GAO criticized OMB for not expanding the coverage of A-95 to encompass all federal aid programs.⁴⁵ Early 1976 amendments to the circular increased the number of programs to over 200—the level at which the review process currently operates.

OMB is conscious of the work load placed upon regional and state clearinghouses by the A-95 process and therefore has sought to weed out research and demonstration projects that are not of direct significance to the locality in which they are carried on. Although many of the clearinghouses agree that their work load is burdensome, considerable pressure to review even larger numbers of projects is

still made to avoid the possibility that something of major significance might slip through undetected. As this present series of ACIR studies of the intergovernmental grant system has shown, about 442 categorical grant programs in addition to several block grants exist, and this figure does not include the large number of loan, loan guarantee, and mortgage insurance programs, many of which also are subject to A-95. Thus the current coverage of A-95 is far below the total number of programs to which it might potentially apply.

Other significant changes have come about gradually in the A-95 process. The 1971 revisions require that state and local environmental agencies be involved in the review process. The 1972 revisions required notification of state and local civil rights agencies so that they could add their comments regarding the nondiscrimination aspects of projects. Finally with the expansion in the number of programs covered, more of the social services type have come under the review process. Presently the physical and social programs roughly balance each other.

Although the number of applications that must be reviewed is quite large, federal aid applicants and the A-95 clearinghouse bodies have accepted the process as necessary and desirable. Even the once spotty compliance record of federal agencies has improved tremendously over the past several years under the prodding of several court cases and the supervision of the requirements by the federal regional councils.⁴⁶

Although compliance with the circular requires continuing attention, several other concerns are more important at present. One is funding the process. Except for two small programs, no specific statutory authority exists for funding the process. Therefore clearinghouses generally use a portion of the funds available from other federally assisted planning programs that they administer. Some federal agencies, or their regional offices, have objected to this practice, creating difficulties for some clearinghouses.

A related difficulty is that federal oversight and coordination of the process was not fully effective until recently. OMB has had only one person assigned to this task. On the other hand each federal regional council a few years ago assigned one person to serve as field coordinator for the A-95 process in its region, somewhat supplementing the OMB effort. Recently the federal departments and agencies have been required to develop specific A-95

provisions in their own regulations for each federal aid program subject to the circular, and OMB has reviewed them for consistency. Oversight gradually is being given more attention.

Another issue that has received major attention since the beginning of the multiprogram review process is the need for better two-way communications. A number of improvements have been made, but more are needed. The biggest complaint of clearinghouses is that they do not regularly receive word about federal agency disposition of the projects that they have reviewed. Automated information systems have been proposed to solve this problem but are not yet operational. A requirement has been established for federal agencies to notify clearinghouses about individual projects that are funded contrary to clearinghouse comments and to explain such actions, but this stipulation applies to relatively few of the projects reviewed.

Another basic concern is the basis for clearinghouse reviews and the effectiveness of the review process. Although a number of projects have been revised, withdrawn, or denied because of the reviews they received, many projects are reviewed only on their own merits, with little or no regard to their relationship with relevant local, areawide, and state plans. This situation is not as evident in fields like transportation where the planning process has been rather fully developed over the past 15 years, producing a solid basis for meaningful reviews. However the lack of such planning is a significant problem in many other programs, especially the newer ones. It is a particular difficulty for programs in which the clearinghouse agency has not been designated to conduct the federally funded planning—a quite common occurrence. Although Part IV of circular A-95 provides that other federally designated planning bodies in an area coordinate with the area-wide clearinghouse, there has been little oversight of this provision and the clearinghouses generally have ended up with no significant planning basis for reviewing many of the applications that are submitted to them under Part I of the circular. On the positive side of this issue, however, OMB has promoted the joint funding of federal aid projects, and the largest group of projects funded by this means have been for regional planning. This step has helped to improve the planning basis for Part I reviews where it has been tried, but it has affected only a small number of A-95 clearinghouses to date.

Another issue is whether or not to give clearinghouses authority to resolve identified problems with-

in projects before they may be federally funded. Although this issue is quite controversial, it is a provision already legislatively imposed in the urban transportation and waste treatment management programs. Federal agencies also have the administrative discretion necessary to refuse funding under many programs if clearinghouse comments reveal that serious problems remain unresolved.

OMB currently is evaluating the whole A-95 process. Meanwhile Sen. Warren Magnuson (WA) and Rep. Thomas L. Ashley (OH) have introduced a bill that would provide, in part, (a) more consistent funding for A-95 reviews, (b) better coordination of federally aided regional planning as the basis for clearinghouse reviews, and (c) consistency between regional planning and funded projects.

In addition ACIR has recommended that the federal regional councils be designated as federal interagency clearinghouses, using the same A-95 procedures to clear projects with significant departmental overlaps at the federal level.⁴⁷ To avoid additional delays this clearance could take place at the same time as state and local reviews. Although federal regional councils may not be capable of overseeing this interagency process at the present time because of their weak structure and staffing, this service potentially could help to carry out more fully the intent of Title IV of the *Intergovernmental Cooperation Act of 1968* that, “. . . all viewpoints—national, regional, state and local—shall, to the extent possible, be fully considered and taken into account. . . .” (Emphasis added.)

Relocation and Real Property Acquisition

The *Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970* established as national policy the principle that every individual, family, and business displaced from property by either direct federal action or federally assisted programs should receive fair treatment. Prior to the passage of this act, various acquisition procedures were used by numerous federal agencies. The departments of HUD, Interior, Defense, and the National Aeronautics and Space Administration and the Federal Highway Administration were providing relocation payments, although at varying levels and under differing conditions. Too often the federal government simply resorted to condemnation proceedings and sought the “least cost” acquisition settlement in its own interest on a business-like basis. Thus the act had not only a

standardizing purpose, but also the goal of extending relocation benefits to numerous programs not previously required to assist relocatees, thereby uniformly humanizing this aspect of federal activity. The benefits and services that must be provided to displacees include:

- assurance of available housing;
- payment of moving expenses;
- reimbursement for business and residential property lost;
- additional lump-sum payments to homeowners and renters to aid their reestablishment; and
- various types of nonfinancial assistance for resettlement.

The new acquisition standards involve matters such as negotiation, appraisal, payment of "just compensation," the reimbursement of transfer costs, and sellers' attorney's fees.

The act's mechanism for bringing about the uniform application of these principles in federal programs is to require that federal agencies "consult together." However the act makes individual agencies clearly responsible for setting their own relocation and real property acquisition requirements.

To facilitate the consultation process, a 1971 Presidential memorandum established a top-level interagency committee—the Relocation Assistance Implementation Committee. This committee is backed up by a staff-level working group. Responsibility for chairing and supervising the committee work has been transferred back and forth between OMB and the General Services Administration (GSA), and despite diligent staff work, many interagency issues remain unresolved.

OMB first attempted to initiate some uniformity under this act by issuing interim guidelines on February 27, 1971, which were formalized by Circular A-103, on May 1, 1972. GSA superseded that circular with Federal Management Circular 74-8, issued on October 21, 1974. And on March 7, 1977, GSA recodified this material into the Federal Property Management Regulations (Amendment A-26), to reflect a reorganization within GSA. The Public Buildings Service, Office of Space Planning and Management, GSA, currently has responsibility for this policy requirement.

These circulars and regulations suggest definitions and procedures for implementing the act, including

procedures for bringing appeals of interagency conflict from the field via the federal regional councils to the Relocation Assistance Implementation Committee in Washington, DC. However the federal regional councils, which are responsible for field coordination of the act, are as powerless to ensure consistency as Washington is under the current act.

Given this lack of definitive coordination authority, agency regulations and practices continue to vary considerably. For example some agencies have determined that only state-level grants are subject to the act and have been upheld in this position by the courts; other agencies continue to require local grantees to comply. Levels of benefits also continue to vary widely among agencies.

In 1972 GAO revealed 11 areas of inconsistency in administration of the act.⁴⁸ Although some undoubtedly have been cleared up by succeeding regulations, the National Governors' Conference recently confirmed that a number of problems arising from this lack of uniformity still plague grantees.⁴⁹ In addition GAO has drafted a new report that confirms the continuing existence of such problems.⁵⁰

Aside from the inconsistencies among agency regulations and practices, two other issues have emerged. First, relocation and land acquisition processes are highly complex and require an administrative capability greater than is possessed by many local governments. Technical assistance may be part of the answer, as is contracting with private parties or other state and local public agencies for these services. However deficiencies in administering the act persist at the local level.⁵¹

The other major issue with respect to the *Relocation and Real Property Acquisition Act* concerns cost. The act originally allowed for additional funds to meet 100% of the relocation costs, but this provision was temporary. Relocation costs now are simply eligible items under the regular cost-sharing formulas of the grants that are subject to this act. When relocation costs add significantly to total project expenses, some projects have been redesigned, shifted to other sources of funding, or canceled.⁵² Of course different matching ratios and the existence of no matching requirements in a few programs result in relocation benefit costs being higher for grantees in some programs than in others.

This act provides one of the clearest examples of a national policy statement calling for uniformity without providing the means to attain it.

Labor and Property Procurement Standards

At least four federal laws affect the way in which federal grants may be used for procuring and using labor property. The oldest is the 1931 *Davis-Bacon Act*, which originally only applied to construction contracts issued directly by the federal government. However over the years more than 60 grant programs have incorporated Davis-Bacon provisions, and in 1962 the *Work Hours Act* stipulated that the wage rates applying in federal and federal aid programs should be computed on the basis of the eight-hour day and 40-hour week. Any work completed beyond these limits must be paid for at the rate of one-and-a-half times that which was otherwise determined. In 1964, Section 13(c) of the *Urban Mass Transportation Act* added other protections of many workers' rights beyond those related to wages—essentially requiring transit unions to sign off on any contracts affecting them under this act. Finally the *Federal Procurement Policy Act of 1974* set up a new office within OMB that had authority to establish governmentwide policies and regulations concerning the procurement of property other than real property; the procurement of services; and the construction, repair, and maintenance of real property. Any regulations issued under this act must be submitted to Congress for a 30-day, test-review period prior to becoming effective, but surviving this test would give them the force of law. So far the Office of Federal Procurement Policy has been working on policies and regulations affecting only the federal government's own procurement practices. Its powers with respect to federal aid programs have not been exercised.

The Department of Labor has clear responsibility and authority to administer the *Davis-Bacon* and *Work Hours* acts, as well as Section 13(c) of the *Urban Mass Transportation Act*, and the Office of Federal Procurement Policy has clear responsibility for administering the *Procurement Policy Act*. Under the 1974 act there appears to have been a conscious effort to separate procurement policy from real estate acquisition policy, which is administered by OMB and GSA under the 1970 act. However relationships are not yet clear between the *Procurement Act* and the Labor administered wage, hour, and work rule aspects of procuring services, and between the *Procurement Act* and any relocations that might result from construction, alteration, repair, and maintenance of real property under

grant programs. Some relationships certainly could be expected to arise as the Office of Federal Procurement Policy focuses on federal aid programs. A consolidation potential within OMB for responsibilities under the *Procurement Act* and the *Relocation and Real Property Acquisition Act* easily comes to mind, but relationships with the Department of Labor might be more difficult to formulate. Nevertheless interagency coordination appears to have been provided for more clearly in the labor and procurement fields than in many others.

With respect to the *Davis-Bacon Act*, however, three troublesome issues have developed over the years and remain unresolved to date. One is that the prevailing wages determined under this act, and under similar acts in 41 of the states, tend to escalate construction project costs at least moderately and, in some cases, to the extent that projects have been made impossible because of overrunning cost limitations that are federally allowed for the projects. Although methodological problems and other controversies surround studies of the cost escalations caused by these laws, there does appear to be substantial evidence to support such escalation, especially in many small rural localities that are lumped together into larger areas to determine wage scales.⁵³ The way that wage determinations are made by the Department of Labor under the act (in the absence of any Congressional definition of the word "prevailing") also tends to favor the higher union wages in areas, even though only 30% of the relevant labor force might be unionized.⁵⁴

Aside from the cost implications of prevailing wage determinations, troublesome administrative problems exist. The grantee must decide whether to base wage determinations by "area" or "project". Wage rates for areas are published regularly by the Department of Labor and can be obtained easily. However the areas to which these apply may be too broad (and thereby disadvantageous in a cost sense for an individual project), and they are subject to weekly updating, which must be reflected in contractors' bids within ten days. Thus the easy use of area wage determinations may turn out to be more expensive and involve more work in the long run.

On the other hand a decision to use project determinations also has drawbacks. First, the grantee must perform and pay for a wage survey in the project area according to federal guidelines, and the Department of Labor's determination may not be made promptly. Additional costs and delays also are attached to this option.

These problems are not insurmountable, however. As the National Governors' Conference has noted:

Some states which have enacted laws similar to the *Davis-Bacon Act* to apply to state-funded projects have opted for methods which are administratively more streamlined. Changed wage rates are published less frequently and according to a schedule and 30 days is allowed before the new information must be reflected in contract proposals.⁵⁵

A final problem stems from the 41 states that have enacted legislation similar to the *Davis-Bacon Act*. As shown in *Table VII-7*, higher wage rates

usually have been established by 31 of these states, resulting in those state laws governing rather than the federal law. Since the federal law was enacted in 1931 (as a remedy for the Depression-spawned practice of roving contractors who would underbid local labor for projects that were badly needed to boost the local labor markets), conditions have changed and proposals have emerged for changing the law. Recent studies have charged that the act now primarily serves to raise local labor wages to maximum union rates and not to take advantage of the lower average rates actually prevailing in many local areas. However because of the existence of so many parallel state laws, any federal reforms might only have a minor impact unless they could be coordinated with similar changes in the states.⁵⁶

Table VII-7
Interaction Between Federal and State Prevailing Wage Laws

State	Davis-Bacon Applies	State Rate Applies
Alabama	X	
Alaska		X
Arizona		X
Arkansas	X	
California		X
Colorado		X
Connecticut		X
Delaware		X
Florida	X	
Georgia	— ^a	
Hawaii	—	
Idaho	X	
Illinois		X
Indiana	X	
Iowa	—	
Kansas		X
Kentucky		X
Louisiana		X
Maine		X
Maryland	X	
Massachusetts		X
Michigan	X	
Minnesota		X
Mississippi	—	
Missouri		X
Montana		X
Nebraska	X	

(Continued)

Thus coordination with the states takes its place along with cost consciousness and administrative simplification objectives in efforts to improve administration of federal hour and wage rate policies.

Public Employee Standards

Since the 1939 amendments to the *Social Security Act*, the federal government has been using grant programs to promote establishing merit systems for state and local government personnel. The "Standards for a Merit System of Personnel Administration" were first applied to public employees in five grant-in-aid programs administered by the Social Security Board and subsequently were extended by Congressional and executive branch action to many

additional programs administered by the Departments of HEW, Labor, Defense, and Agriculture. Earlier versions of the *Intergovernmental Personnel Act* would have extended these standards to all aid programs, but the 1970 act merely called for a study of the problem. In 1971 simpler and more easily administered standards were adopted by joint action of the Secretaries of Labor, Defense, and HEW.⁵⁷ By 1973 the standards were a requirement for receipt of funds in over 30 grant programs, accounting for nearly half of the moneys authorized in grants to states and localities.⁵⁸

Most observers agree that the wide coverage given the merit system standards within the grant system spurred the development of state and local merit systems over the past generation. Although only

Table VII-7
Interaction Between Federal and State Prevailing Wage Laws

State	Davis-Bacon Applies	State Rate Applies
Nevada		X
New Hampshire	X	
New Jersey		X
New Mexico (If state rate is lower)	X	X (If state rate is higher)
New York		X
North Carolina	—	
North Dakota	—	
Ohio	X	
Oklahoma		X
Oregon		X
Pennsylvania		X
Rhode Island		X
South Carolina	—	
South Dakota	—	
Tennessee		X
Texas		X
Utah		X
Vermont	—	
Virginia		X
Washington		X
West Virginia		X
Wisconsin		X
Wyoming		X
District of Columbia	X	
Puerto Rico (Could not tell from available information)		

^aNo state prevailing wage law for public works; therefore Davis-Bacon applies.

Source: U.S. Department of Transportation, Federal Highway Administration, "The Davis-Bacon Act and Federal-Aid Highway Construction: A Brief Summary," January 1976, p. 7.

nine states had governmentwide merit systems in 1939, 34 had such systems by 1973. Of course all states have such systems for those parts of their bureaucracy to which the federal requirements apply.

In addition to the basic merit system standards, federal agencies have issued more than 150 separate personnel administration requirements applying to one or more grant-in-aid programs by using their general authority to impose reasonable conditions necessary for proper and efficient administration of their programs.⁵⁹

Provisions to establish some overall coordination of these merit system strings were incorporated into the *Intergovernmental Personnel Act of 1970*. This act transferred to the Civil Service Commission all functions, powers, and duties regarding the prescription and maintenance of merit system standards applicable to state and local grantees. However the standards previously prescribed by federal agencies continue in effect until superseded by Civil Service Commission action.⁶⁰ The Commission presently is developing new standards and expects to complete them by the end of 1977.⁶¹

These general merit system requirements are buttressed by a series of other long-standing acts that prohibit the use of federal aid funds to (1) influence the awarding of grant contracts (the *Copeland Anti-Kickback Act of 1934*), (2) pay the salaries of political officials at the state and local levels (*Hatch Act of 1939*), and (3) hire present or former federal officials to influence federal legislation and administrative proceedings (18 USC 201-224). The basic purpose of these acts, as well as those dealing with merit system standards, is to professionalize and depoliticize state and local government personnel that work on federal aid programs.

However in pursuing this purpose three significant issues have arisen. The first involves the difficulty of establishing uniform standards. Such standards need to be simple and sufficiently flexible to be broadly applicable to a wide variety of different state and local government employment situations. Many existing requirements have arisen through case-by-case determinations that may be inappropriate in the broader context. Moreover severe fiscal impacts and straight-jacket rules (rigidities that would cause massive across-the-board pay changes, slowdowns in making desirable personnel changes, and massive increases in paperwork) need to be guarded against.

The second issue deals with extending the coverage of merit principles throughout the grant system. This position has been recommended by the

Advisory Council on Intergovernmental Personnel Policy, with the lone exception of the general revenue sharing program.⁶² This task will be neither simple nor uncontroversial.

Finally the issue of enforcing a uniform public personnel policy exists. The Civil Service Commission's powers under the *Intergovernmental Personnel Act of 1970* relatively are limited in this respect. Its roles are primarily (a) to oversee the adoption of uniform standards, (b) to provide technical assistance requested by federal, state, and local agencies, and (c) to give financial assistance to state and local governments through a grant program established by the 1970 act. Enforcement of standards remains the responsibility of individual federal grantmaking agencies. The Advisory Council on Intergovernmental Personnel Policy has recommended that administration of uniform standards should continue as a shared responsibility of all elements of the federal system.⁶³ It would be based on certifications by the chief executive or governing body of recipient jurisdictions that assure adherence to merit principles in personnel systems.

Technical and financial assistance from the federal government, as well as a means for monitoring and evaluating grantee operations, would be integral elements of the process, followed by any necessary consultations, negotiations, public disclosure of evaluation results, and litigation. The council also suggested a role for federal regional councils in this process.

Because the Civil Service Commission's standards have not been issued, much of the hard thinking and experience needed to resolve these questions remains a future project.

Access to Government Information and Decision Processes

As pointed out by the Commission on Federal Paperwork, the core values of a democratic society require that (1) individuals' rights to privacy should be protected; (2) citizens' rights to be informed about public issues and government operations need to be enhanced so that they can take part knowledgeably in governmental affairs; and (3) governments need to restrict the disclosure of some information to protect the national security, avoid adverse impacts on economic markets and individuals, and maintain a free flow internally of information within their decisionmaking processes.⁶⁴

The proper balance among these three values is a sensitive and difficult matter that may never be re-

solved completely. However a substantial body of law has begun to emerge around all three values, and these apply, at least in some measure, to grant programs generally. In reviewing this body of law, the Federal Paperwork Commission focused primarily on the *Freedom of Information Act of 1974* and the *Privacy Act of 1974*, but also noted the existence of a patchwork of at least 200 other related laws resistant to dramatic simplification.⁶⁵ Omitted from that study was an equally large body of law relating to required citizen participation processes.

This section summarizes those laws requiring disclosure of government information as the basis for informed participation in governmental decision-making, the requirements for citizen participation in the administration of grant programs, and finally the privacy and confidentiality provisions as limitations on information sharing.

DISCLOSURE OF INFORMATION

The 1974 *Freedom of Information Act* generally provides that government information should be readily available to interested parties without a "need to know" requirement. Protections are provided against disclosure of matters that would constitute a "clearly unwarranted invasion of personal privacy." Although the full implications of this law for grant recipients remains to be determined, grantees clearly could avail themselves of access to a broad range of federal information needed in administering grant programs. In addition papers and reports generated by the federal grant-making agency, as well as records and reports of the grantee (at least with respect to funded projects), would become public information under this act.⁶⁶

In addition to this generally applicable disclosure law, other enactments affect access to information in specific federally funded program areas. For example the *Family Educational Rights and Privacy Act of 1974* (Buckley Amendment) provides for access by parents to their children's school records in any school system receiving federal aid and for the right to have errors corrected.⁶⁷

The A-95 federal aid review and comment process and the environmental impact requirements are useful mechanisms through which large bodies of information concerning grant programs can be made available routinely. In both cases specific provisions for citizen access to information have been incorporated along with provisions seeking inter-governmental reviews. The *Administrative Proce-*

dures Act (5 U.S.C. 551 *et seq.*) also provides for public information about and citizen comments on the rulemaking efforts of federal agencies relating to grant programs as well as other activities.⁶⁸ These procedural mechanisms are essential to an effective public information process, because otherwise citizens would have to alert themselves to the activities of government, to request specifically the information they desire, and to seek remedies through the courts (under the *Freedom of Information Act*) if their requests are not promptly and reasonably honored.

CITIZEN PARTICIPATION IN GRANT PROGRAMS

A forthcoming report prepared by the Community Services Administration (at the request of the federal regional councils) inventories a wide range of citizen participation requirements in the grant programs of 11 federal agencies. This report concludes that a participation requirement of some form is reflected in nearly every program. The report goes on to explain that:

A brief survey of citizen participation elements in various federal programs reveals a wide range of options for action open to citizens and an equally wide range of tasks for local governing officials responsible for compliance with the legal requirements of the statutes and regulations. The scope and variety of response required of state and local governments imposes a heavy and sometimes confusing burden on the elected official. In addition, the citizen who desires to gain access to planning is often bewildered by the array of regulations and the seeming complexity of procedures and qualifications surrounding the federally financed program.⁶⁹

The Administration's report identifies 39 different types of citizen participation techniques, ranging from "opinion sampling and surveys to the use of independent boards with defined membership and responsibilities."⁷⁰ In the federal aid programs inventoried, the four techniques used most often (either singly or in combination) were advisory boards, planning boards with clearly defined authority, published materials used to secure public comment, and public meetings and hearings.

PRIVACY AND CONFIDENTIALITY

The *Privacy Act of 1974* (5 U.S.C. 552a), plus statutes and practices related to national security and the Doctrine of Executive Privilege all tend to limit the availability of information held by the federal government. Although the 1974 act gives individuals the right to read and challenge any government-maintained records concerning themselves, the important provision with regard to grant programs is the limit placed on government agency dissemination of records to third parties when such records contain personal information that can be identified to an individual. The act does not apply to records kept by grantees, but great significance to grant programs exists in the potential for denying access to federal records systems that could provide statistics needed in pursuing the grant-supported work. There are indications that better access can be provided without violating the privacy of individuals.⁷¹ Failing to allow access tends to produce a duplication of data collection efforts (which are costly and bothersome to both the government and the people of whom the information is requested, or to result in nonuse of needed information and less effective governmental decisionmaking. The *Federal Reports Act of 1942* (44 U.S.C. 3501-3511) attempts to avoid such difficulties.

PARALLEL STATE AND LOCAL REQUIREMENTS

All states now have some legislation concerning access to government information and decisionmaking processes. For example:

With passage of comprehensive open meetings legislation in New York and Rhode Island in 1976, all 50 states now have open meetings laws that apply to state and local government. Thirty-three of these laws have been enacted or strengthened in the last four years. Thirty-seven states now require advance public notice of meetings; 32 require minutes; and 34 provide sanctions against officials who violate the law.⁷²

In addition city and county planning laws, most of which have been based on model acts, require the publishing of information and the holding of hearings during the preparation and/or adoption of local plans.

A recent survey of the 50 states identified a wide range of provisions for public hearings and public participation in the preparation of city and county budgets. It was summarized as follows:

1. In 35 states, citizens or taxpayers had some access to the municipal budget process.
2. In 30 states, citizens or taxpayers had some access to the county budget process.
3. In 23 states, citizens or taxpayers had some access to both the city and county budget process.
4. In 38 states, publication was required giving notice of a proposed budget and/or budget hearings before a final budget could be adopted for a city or county. In one other state, the proposed county budget was open for inspection before final adoption.
5. In 32 states, statutes expressly required public hearings before city or county budgets could be finally adopted. Where a state statute provided for a "public hearing" it is herein construed as contemplating some public participation, although most statutes expressly provided for public opportunity to express views for or against budget items. One other state provided for an election to enact the city budget. Two others provided for town meetings, implying public participation thereat. Two others provided for written protests or petitions to protest items in a proposed city or county budget.⁷³

Federal grant recipients often must meet requirements of both federal and state laws concerning access to their information and decision processes.

ISSUES

No agency of federal government currently has any overall coordination responsibilities with respect to the information processes described above, although assignment of such responsibilities has been proposed recently.⁷⁴ It also has been proposed that new legislation is needed to interrelate the *Freedom of Information* and *Privacy* acts.⁷⁵ The purpose would be to reach a clearer balance between

these two basic values and to codify and simplify the many separate provisions of law that now cause confusion and too often limit desirable information sharing. Another recent report has called for enactment of a uniform public participation act that would "modify and standardize, as appropriate, all legislative requirements for citizen involvement—thereby simplifying participation of an informed and concerned public and helping to ensure open government."⁷⁶ Finally a proposal has arisen for substantial strengthening of public participation in the federal policymaking process.⁷⁷ This step could be of considerable significance in the development of improved regulations for grant programs.

Until recently there probably has been less done to coordinate fragmented responsibilities and piecemeal requirements with respect to governmental information and participation than in any other set of generally applicable grant provisions reviewed in this chapter. None of the proposals for improvements that have been identified are even two years old. Yet the growing number of these reports indicates ample reason for directing greater attention to this concern.

TOWARD COORDINATION, SIMPLIFICATION, AND UNIFORM COMPLIANCE

These brief descriptions of the varied national policies, which add seven major concerns to the administration of all or most federal grant programs, graphically illustrate the need for a more systematic approach to coordinating these concerns. Complexity, confusion, duplication, extra paperwork, interagency conflict, added administrative and implementation costs, and ineffective or inconsistent compliance with stated national policies appear over and over again. Sometimes the trouble seems to originate in the legislation; in other cases administrative problems, basic social forces, or a combination of factors seem to stand in the way of achieving these national policies quickly and effectively. Any given act or requirement analyzed was found rather consistently to have significant relationships to others impacting on grant recipients, but each generally is administered separately and often inconsistently at the federal level.

As shown by the various studies concerning coordination needs in these seven policy areas, several things need to be taken to overcome the problems

that exist. First, uniform regulations need to be developed and widely established within the relevant agencies. These regulations should interrelate within each policy area many presently separate provisions, but allow appropriate flexibility for grantees in complying the national policies in their own jurisdictions. The uniform regulations also should ensure, as far as possible, simple procedures, minimal paperwork, minimum delays due to required procedures, and reasonable approaches to the cost of compliance.

Given firmly established uniform regulations, interagency training could help to ensure uniformity of agency practices consistent with those regulations. Even when uniform regulations have been developed, they too often have not been carried out uniformly. Training in these activities could help to reduce the "slip between the cup and the lip" and to enable federal agencies to provide meaningful technical assistance to grantees so that they can comply with national policies without undue burdens.

In many cases the different types of general grant policies need to be interrelated better. For example use of the A-95 process to involve citizens and civil rights agencies in project reviews clearly interrelates three of the general policy areas described in this chapter, and interrelationships between the environmental protection, information access, and planning coordination policy areas are equally obvious. When the general requirements work together, the chance of success is enhanced for all.

Finally a continuing effort is needed to monitor, evaluate, and constantly improve the administration of these general grant policies. The history of coordination in these policy areas supplies ample evidence that quick victories frequently cannot be expected. The complexities, competing social values, and other difficulties faced reflect deep-seated differences that cannot be ignored. Resolving these differences takes time, effort, and meaningful interagency and intergovernmental communication. And if coordination efforts do not continue over the long run, they will not be likely to achieve success.

These coordination needs strongly imply the need for organizational mechanisms that can effectively institutionalize simple and uniform approaches throughout the bureaucracy. Several have been used in the past and are continuing to be used, but not always with the best results. These experiences in coordination are examined below, as well as other factors in coordination (e.g., legislative changes and court decisions).

Mechanisms for Interagency Coordination

The general national policies applicable to the grant system are not self-executing. They must be carried out by administrators. Consequently the implementation procedures and devices that are developed within and among departments and agencies determine the degree to which the articulated goals are transformed into actual policy impacts.⁷⁸

The implementation process begins with a rearticulation of broad policy into detailed regulations and an enforcement effort that seeks grantee compliance with these regulations. This process must be followed by an effective federal managerial effort, particularly in the form of interagency coordination; otherwise as the across-the-board policies are administered to recipients (most of whom obtain funds from more than one federal source), the implementation efforts of federal agencies can subject grantees to severe strains. Management of the federal administrative response to the general grant policies bears fundamentally on the compliance task of the state and local grantee.⁷⁹

This key coordinative management issue is explored in terms of the ways the federal government has attempted to mesh the implementation of its general grant policies.

Harold Seidman states in *Politics, Position, and Power* that, "the quest for coordination is in many respects the twentieth-century equivalent of the medieval search for the philosopher's stone."⁸⁰ As was true of the philosopher's stone, coordination is highly prized but consistently elusive. This situation prevails despite the fact that federal administrators have explored a number of paths in their search for coordination and the administrative "treasure" it promises. These "paths" are represented by organizational arrangements that can be distinguished according to three basic forms: (1) the **lead agency approach**, by which Congress or the President gives an agency the responsibility (sometimes with and sometimes without the necessary authority) to coordinate the activities of other agencies in a particular area; (2) **interagency committees**, by which agency representatives consult formally on an equal basis; and (3) **formal interagency agreements**.⁸¹

These organizational forms have been used to coordinate the implementation of general national policies throughout the grant system. This situation attests both to the pervasive pursuit for coordination at the federal level and to the managerial necessi-

ties imposed by the across-the-board nature of these particular grant conditions. The success of each arrangement from the standpoint of the state and local grantees' compliance task is examined below.

LEAD AGENCIES

By far the most frequently used approach to coordinating broad national policies as they apply to the grant system has been to assign lead responsibility to appropriate agencies. The line agency whose program mission is viewed as most closely associated with the national policy in question usually receives this assignment.

For example responsibility for Section 504 of the *Rehabilitation Services Act of 1973* (barring discrimination against the handicapped in all federal grant programs) was given to HEW—the Department that already was providing special services to this sector of the population. Using this same type of reasoning, the Department of Justice was given major civil rights responsibilities because of their legal ramifications; the Civil Service Commission was designated lead agency for merit system standards because of its personnel expertise; and the Labor Department received substantial equal employment opportunities and labor standards responsibilities because of its familiarity with unions.

On the other hand special agencies have been created to take the lead in administering some of the newer or broader requirements. CEQ and EEOC are examples of this approach. Use of the lead agency device to help implement across-the-board policies is catalogued in *Table VII-2*, presented earlier in this chapter.

Such an arrangement may appear neat and orderly at first glance, but a more careful analysis reveals that its effectiveness in preventing overlapping agency responsibilities and authorities has varied according to the scope of the national policy attached to the grant system. For those across-the-board conditions with relatively confined purposes, assigning to a single lead agency all the coordinative responsibilities and authority has been possible. Environmental protection and nondiscrimination, on the other hand, are national policies that involve a wider range of concerns, and the federal government consequently has taken the approach of parceling out both distinct and overlapping responsibilities within each area. *Table VII-3* (presented earlier) shows the major divisions of responsibility in these two fields.

The current organizational pattern for administering the federal government's nondiscrimination policies in the grant system is the best example of the administrative confusion created by multiple assignments of responsibilities. Coordinative responsibilities in this field have been divided among lead agencies according to the type of discrimination committed, the programs involved, or the parties affected. In terms of discriminatory practices, two basic categories exist: (1) discrimination in the disbursement of services provided by federally assisted programs, and (2) discrimination in the employment of individuals in grant-aided programs. Justice is in charge of the first (under Title VI of the *Civil Rights Act*), while EEOC is responsible for the second (under Title VII of the same act). Yet Title VI covers employment under grant programs, as does Title VII, and the merit standards for public employees covered by Title VII are the responsibility of the Civil Service Commission rather than EEOC. To make matters worse employment under federally assisted construction contracts is governed by the Office of Federal Contract Compliance Programs (OFCCP) in the Department of Labor. In addition HEW has been put in charge of coordinating the implementation of Section 504 of the *Rehabilitation Services Act of 1973*, which covers the employment practices of grantees with respect to handicapped individuals. Thus five lead agencies are spearheading the effort to ensure fair employment practices in the grant system.

Other examples could be cited, but at this point the following summary is sufficient: Whether by intention or happenstance, the federal government has created a situation whereby multiple lead agencies are responsible for coordinating the implementation of similar and overlapping policies attached to the grant system. Such an arrangement cannot help but make the goal of uniform grant regulations and a consistent governmentwide enforcement effort more difficult to achieve. Those, however, who believe that a certain amount of redundancy in the system is healthy are less alarmed by this overlap.

Beyond the complicating factor of multiple lead agencies, the question of whether or not the lead agency approach (as presently practiced) is an effective means of coordination arises—even in those cases where overlapping responsibilities are not a significant problem.

Not to be overlooked is the fact that use of lead agencies in other areas, such as the coordination of multiagency programs, often has not produced satis-

fying results.⁸² Charles M. Haar, a former HUD official, states in his recent analysis of the Model Cities program:

Perhaps the most unambiguous lesson of the program's experience is the failure of the lead agency. . . . Used frequently in Great Society programs, the lead agency construct never amounted to much in any setting. It disintegrated to a ducking of issues.⁸³

The application of the lead agency approach to the *Rural Development Act of 1972* thus far has yielded results consistent with Haar's observations. Section 602(b) of the act states:

The Secretary of Agriculture is authorized and directed to provide leadership and coordination within the executive branch and shall assume responsibility for coordinating a nationwide rural development program utilizing the services of executive branch departments and agencies and the agencies, bureaus, offices, and services of the Department of Agriculture in coordination with the rural development programs of state and local governments.⁸⁴

A 1975 report by GAO indicates, however, that only minor progress has been made in achieving the objectives set forth in this provision.⁸⁵

The reason for the poor performance of many lead agencies can perhaps be found in the Congressional testimony of Joseph Califano, a former special assistant to President Lyndon B. Johnson and now Secretary of HEW. Califano believed that the concept of putting one peer over another (which is embodied in the lead agency approach) is unworkable in practice.⁸⁶ This situation is especially the case when the lead agency has no action-forcing process to buttress the coordinative authority it has been given by statute or executive order. Under such circumstances departments and agencies have no incentive to bend to the lead agency's will because they believe that their interests are being threatened. In fact they may not even bend when the President asks them to, unless real enforcement authority is demonstrated.

In the area of general national policy requirements attached to grants, a number of instances exist in which the absence of sufficient leverage has

denied a lead agency the ability to coordinate effectively. An important example involves CEQ's role in the implementation of the *National Environmental Protection Act of 1969* (NEPA). Section 102 of NEPA requires that federal agencies prepare environmental impact statements (EIS) for every "recommendation or report on proposals for legislation and other major federal actions [including grants] significantly affecting the quality of the human environment."⁸⁷

Although CEQ was established by NEPA to serve as the guardian of environmental concerns within the executive branch, some ambiguity arose at the beginning as to whether CEQ or OMB would have the lead responsibility for coordinating the implementation of the EIS process. Indeed NEPA's legislative history indicates that its designers thought that OMB (then the Bureau of the Budget) would "supervise the 102 process, just as it served as overseer of benefit-cost evaluations."⁸⁸ This approach would have allowed (although not ensured) tapping the leverage of the budget process to strengthen agency compliance. From the start, however, OMB took pains to remain aloof from NEPA while CEQ sought a strong role.

Thus the decision to give CEQ the oversight role follows the common pattern described earlier of selecting a lead agency on the basis of the correspondence between the agency's mission and the nature of the national policy to be implemented. Yet this example also illustrates the lack of adequate leverage often associated with this type of arrangement. CEQ's weakness as a lead agency has been quite significant for state and local grantees. A memorandum from (former) Treasury Secretary William E. Simon to the executive committee of the Economic Policy Board indicated that:

... since the enactment of the law a regrettable nightmare has emerged concerning the administration and preparation of [environmental impact] statements. There are currently 59 different regulations from various federal agencies and departments regarding environmental impact statements. Although a federal responsibility by law, states and local governments are generally delegated the task of preparing such statements for approval and comment by the federal government. Procedures are confused, and responsibilities overlap.⁸⁹

The failure of CEQ to achieve uniform NEPA application has created:

... uncertainty on the part of [state and] local grantees as to what constitutes adequate environmental documents. Uncertainty also exists as to the extent to which review is intended to encompass technical input, agency input, or citizen input. This results in most environmental documents being lengthy and over-documented to meet ill-defined federal agency regulations, rather than concise, useful statements to be used as a tool for decisionmakers.⁹⁰

It should be noted, however, that CEQ was given new authority, on May 24, 1977, to require agency compliance with its requirements; therefore the situation described herein may change.

The question of whether or not OMB (or some other part of the executive office of the President) is more appropriate for coordinating a general grant system requirement than a line agency probably depends chiefly on an examination of (a) the line agency's policy expertise in the areas encompassed by the across-the-board condition, (b) the firmness and specificity of the policy objective, and (c) the agency's managerial capacity and actual authority in the matter. For clearcut policies and agencies in a strong position, OMB responsibility is probably not necessary. This is the case, for example, with the Department of Labor, which has an oversight role for all legislation that requires *Davis-Bacon Act* compliance. Labor has proven to be an effective lead agency in this area, because other agencies, grantees, and their contractors have to receive the Department's wage determinations before taking action themselves. For line agencies that do not have the requisite leverage, however, OMB (or some other part of the executive office) could be an attractive alternative to the current situation if it was backed up by continuing Presidential interest and authority.

Along these lines the Civil Rights Commission has recommended in a recent report that the President transfer Title VI coordinative responsibilities from the Department of Justice to OMB.⁹¹ The Commission's recommendation was prompted by what it believed was the Justice Department's lack of governmentwide leadership in this area, as manifested by the fact that:

As of July, 1975, the Attorney General had failed to carry out the mandate, issued 18 months before under Executive Order 11764, to prescribe "standards and procedures for implementation of Title VI."⁹²

Despite Justice's long association with civil rights issues, the Civil Rights Commission believed that the Department's managerial deficiencies warranted this transfer of duties. It stated:

The performance of oversight functions on behalf of the President is a recognized institutional role of the Office of Management and Budget. The addition of Title VI responsibilities would serve notice of a Presidential decision to use all of the powers at the President's disposal to translate the rhetoric of Title VI into action.⁹³

However CEQ is in the executive office of the President, and that fact alone did not make it effective, as cited in the earlier example.

In summary the present practice of assigning coordinative responsibilities to the line agency or another lead organization whose program mission is related most closely to the national policy condition in question is associated with three basic outcomes. First, the practice has not prevented the development of overlapping jurisdictions in particular areas. Second, this practice has not always assigned responsibility where it can be fulfilled effectively. Third, this practice has left OMB with a very limited role in coordinating the implementation of general national policies throughout the grant system. In light of the above and information emerging from the case studies, this situation may require some modification by Congress and/or the executive office of the President.

INTERAGENCY COMMITTEES

Interagency committees have been used to a lesser extent to coordinate national policy conditions in the grant system. Although called into question recently, the conventional wisdom about such committees has not held them in high esteem among administrators and students of public administration.⁹⁴ Harold Seidman calls them the "crabgrass" of governmental institutions: "While nobody wants them, everybody has them, and they seem to multiply despite efforts to weed them out."⁹⁵

Interagency committees have spread not because they necessarily deal effectively with issues that cross traditional agency jurisdictions, but because in many instances, they are the only organizational arrangements possible or acceptable. For example assigning all the coordinative responsibilities to one lead agency may be quite difficult in the case of national policy conditions of broad scope. Under such circumstances interagency committees become an attractive option despite the many shortcomings demonstrated by these mechanisms in the past. J. Clarence Davies, a former staff member of CEQ and of the Bureau of the Budget, described these deficiencies:

The most important issues tend not to be discussed, and those that are considered are resolved by resorting to the lowest common denominator of agreement. The federal agencies are, for the most part, legal and political equals with no incentives to influence each other's business. There is considerable incentive, from the standpoint of ensuring bureaucratic stability and freedom of action, not to try to meddle in the business of a sister agency. Thus, any serious attempt at regular coordination runs so counter to the general characteristics of the federal government that the cards are heavily stacked against its success.⁹⁶

The *Uniform Relocation Act of 1970* and the *Architectural Barriers Act of 1968*, for example, are currently coordinated by interagency committees. The former act authorizes and directs the heads of federal agencies to consult together on the establishment of governmentwide regulations and procedures for the administration of relocation and real property acquisition programs. Pursuant to the act's mandate of uniformity, the President established by memorandum the Relocation Assistance Implementation Committee (RAIC) in 1971.⁹⁷ Its membership includes representatives of the major federal agencies responsible for administering programs involving the displacement of individuals, businesses, and farms.⁹⁸

Despite its six-year existence RAIC has failed to eliminate divergent agency procedures and enforcement activities under the *Uniform Relocation Act*, primarily because the act subverts any real attempt at coordination by stipulating that the individual agencies ultimately have responsibility to promulgate procedures and to review grievances. This agen-

cy autonomy is reflected in a recent proposal to change RAIC's rules of operation, which contains a requirement for committee unanimity regarding recommended changes to agency practices.⁹⁹ As a consequence RAIC has not served as a viable forum for discussing and resolving significant issues.

The poor performance of RAIC also can be attributed to its status as an administrative "football" that has been passed back and forth between OMB and GSA. OMB was originally designated to supervise RAIC by the President in January 1971. However pursuant to Executive Order 11717 (issued in September 1973), the functions and chairmanship of RAIC were transferred from OMB to GSA. Two years later several other responsibilities were shifted back to OMB and whether relocation was among them was uncertain. This situation was resolved in GSA's favor in 1976, but RAIC has convened with great infrequency over the past several years, and state and local grantees still must contend with nonuniform federal relocation and acquisition regulations.

Another example of an interagency committee has had the same problems as RAIC. The Architectural and Transportation Barriers Compliance Board (ATBCB), established by Section 502 of the *Rehabilitation Services Act of 1973*, has the primary mission of ensuring the barrier-free design and construction of buildings and facilities constructed by the federal government or under federally assisted programs.¹⁰⁰ The ATBCB is a quasi-independent agency composed of the heads of nine federal agencies with the Secretary of HEW serving as permanent chairman of the Board. The Board was established in response to poor compliance by federal agencies during the previous five-year period with the *Architectural Barriers Act*. This situation was

... attributed to the absence of any one central agency or force clearly responsible under statute or by administrative arrangement for ensuring the comprehensive and consistent development and enforcement of federal design standards. It was, therefore, strongly believed by Congress that a new federal unit was necessary to fulfill this function, and achieve the goal of societal integration of the handicapped by becoming a major national force for positive change in the elimination of all categories of barriers.¹⁰¹

ATBCB's effort to achieve a uniform level of compliance from federal agencies and grantees subject to the *Architectural Barriers Act* is moving slowly. Only in early December 1976 had the ATBCB adopted the procedures that will govern its compliance process. Although an assessment of this interagency committees' effectiveness may be somewhat premature at this time, there already are some indications that ATBCB's efforts will not be received blithely by federal agencies.

For example, HEW has interpreted Section 504 of the *Rehabilitation Act of 1973* (which deals with nondiscrimination on the basis of handicaps in federally assisted programs) to include the issue of the inaccessibility of buildings. HEW argues that the existence of architectural barriers operates to exclude handicapped persons from the federally assisted programs and services held and is comparable to other kinds of discriminatory practices. As a result of this reading of the law, HEW's proposed regulations for implementing Section 504 includes a paragraph dealing with those facilities that in their view are subject both to HEW's jurisdiction under Section 504 and to ATBCB's jurisdiction under Section 502 of the act. Under such circumstances, the Department:

... will, for a reasonable period of time not to exceed 60 days, defer action pending review by the Board.¹⁰²

The ATBCB has commented that:

... for buildings constructed with the assistance of federal grants, this approach is not consistent with the overall statutory scheme of the *Rehabilitation Act of 1973* and that such facilities are within the exclusive jurisdiction of the Board.¹⁰³

This squabble between ATBCB and HEW continues despite the fact that the chairman of ATBCB is the Secretary of HEW. However the real losers are the state and local grantees who will have to deal with two conflicting parties when an architectural barriers case arises.

The federal regional councils also might be considered a special case of the interagency committee mechanism. Primarily established early in the Nixon Administration to coordinate the federal government's grantmaking activities in the field, they have made modest gains in identifying issues, expanding

interagency communications, and establishing some cooperative activities, but they have not been effective in resolving policy issues within the grant system.¹⁰⁴ Their parent committee back at headquarters—the Under Secretaries Group for Regional Operations (USG)—has had so little success that it has fallen into disuse for long periods during its short existence.

Although the federal regional councils have demonstrated limited success with their specific responsibilities for helping to administer the A-95 federal aid review and comment process and general responsibilities for coordinating member federal agency activities, their potential for easing administration of the general national policy requirements in grant programs overall has been meager. For example with regard to the civil rights field, the U.S. Commission on Civil Rights has found (a) inadequate direction to the councils from both OMB and USG, and (b) only sporadic council activities to ensure equal employment opportunities and nondiscrimination in grant programs.¹⁰⁵

INTERAGENCY AGREEMENTS

Interagency agreements are a third means of coordinating action between two or more departments. Unfortunately they echo the deficiencies associated with:

... interagency committees and the other essentially “voluntary” coordination techniques. They can be effective only in those limited areas in which the parties affected actually desire joint action; they cannot reconcile deeply rooted conflicts. If the objectives of signatories should later diverge, the agreement may be ignored.¹⁰⁶

Most interagency agreements are bilateral, simply stating a common interest between two agencies and affecting no other. However generally applicable national policy requirements often require broader multilateral agreements, with the expected escalation of difficulties.

This is demonstrated clearly by the recent failure of a four-year attempt by the Equal Employment Opportunities Coordinating Council (EEOCC) to devise uniform guidelines on employee selection procedures for agreement among its four constituent agencies. EEOCC is composed of the Department of Labor, EEOC, the Civil Rights Commission, and

the Department of Justice. It is charged by law with eliminating inconsistency among the operations of the agencies and departments responsible for enforcement of federal equal employment opportunity laws. But to accomplish this task, the council must attain agreement among all its constituent agencies. Thus it has been primarily drafting uniform regulations that these agencies could endorse.

After a four-year effort, however, EEOC stated in October 1976 that it could endorse the draft rules under consideration by the Council.¹⁰⁷ This deadlock was the result of a fundamental disagreement about requirements for validating employment tests.¹⁰⁸ As a result Labor, Justice, and the Civil Service Commission have acknowledged:

... that the coordinating council has not been successful in achieving a uniform federal position on the issue of employee selection procedures at this time.¹⁰⁹

Nevertheless these three agencies have decided to adopt, by interagency agreement, the guidelines that were developed under the auspices of the coordinating council and to encourage their adoption by other federal agencies. Unfortunately state and local governments will not benefit from this move significantly because they will remain subject to EEOC's requirements as well as those of agencies extending financial assistance.

OVERVIEW

The foregoing has analyzed briefly the organizational patterns that have been developed to coordinate the implementation of general national policies via the grant system on a governmentwide basis. The proliferation of these policies also has prompted similar efforts to eliminate duplication and inconsistent regulations that arise within departments.

For example HEW, as of December 1976, was in the process of consolidating procedural rules for the administration and enforcement of the numerous civil rights laws and authorities that affect its own programs.¹¹⁰ These include Title VII of the *Civil Rights Act of 1964*, Title IX of the *Education Amendments of 1972*, and Section 504 of the *Rehabilitation Act of 1973*. In addition the Civil Service Commission intends to coordinate more effectively its requirements for grantees deriving from both the *Hatch Act* and the *Intergovernmental Personnel Act*.

Both inter- and intradepartmental efforts are needed to coordinate generally applicable grant conditions. In both cases the choice of mechanisms to do the job will have to be faced. More than one type of mechanism may be needed in some situations. Whatever choices are made, the experiences cited above should illustrate what can and cannot be expected of given mechanisms in given circumstances.

Other Factors in Coordination

In addition to the need for substantially improved interagency coordination, the policy evaluations illustrate that Congress and the courts both play important roles in the administration of national policies that are generally applicable to the grant system. For example no amount of administrative coordination effort is likely to overcome separately legislated agency responsibilities that are inconsistent with one another. Specific legislative mandates must be adhered to, and new legislation is the only effective remedy when mandates compete. Efforts to simplify, coordinate, and improve compliance with the generally applicable grant requirements often should include consideration of the need for changes in legislation. Such changes might include consolidation and reformulation of the policies themselves, reformulation and simplification of legislatively mandated administrative requirements for grantees, statutory provisions for federal co-

ordinating structures, and even repeal of some policy elements that may have proven infeasible or unwise or that may have become obsolete.

Likewise the role of the courts cannot be overlooked. Court decisions have had major effects on the administration of the civil rights and environmental policies applicable to grant programs and also are beginning to play an important role with respect to the rights of the handicapped. Administrators are bound by court precedents in these cases, unless Congress changes the laws to remove or modify the basis for the court cases.

To the extent that the administration and Congress do not satisfactorily resolve the issues raised by general grant conditions, the role of the courts becomes more important. Yet the courts' resolution of these basic policy issues may be no more appropriate than the administrative practices that they overturn. After all court decisions are made on a case-by-case basis and may be very situational.¹¹ Nevertheless they may have far-reaching effects well beyond the individual case that sets the precedent. In addition the courts are too busy to take on major new case loads in these areas and are ill equipped to evaluate and choose among major policy, administrative, and coordination options that might provide better solutions to the complex conditions of contemporary grant administration. Thus rather than leaving more to the courts, Congress and the executive branch should mount a joint effort to improve this aspect of the nation's grant system.

FOOTNOTES

¹Such administrative objectives have been treated elsewhere in this series of reports. See especially Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management* (A-53), Washington, DC, U.S. Government Printing Office, 1977.

²Martha Derthick, *The Influence of Federal Grants: Public Assistance in Massachusetts*, Cambridge, MA, Harvard University Press, 1970, p.3.

³*Ibid.*, p. 207.

⁴Kenneth Arrow, Review of *A Strategy of Decision*, by David Braybrooke and Charles E. Lindblom, *Political Science Quarterly*, 79, December 1964, pp. 584-88.

⁵James A. Kushner and Frances E. Werner, "Revenue Sharing and Relocation: The Administrative Dilemma of Ostensibly Conflicting Directives," *Ecology Law Journal*, 5, 1976, p. 434.

⁶An excellent pioneering work on this subject is Jeffrey L. Pressman and Aaron B. Wildavsky, *Implementation*, Berkeley, CA, University of California Press, 1973. Other recent references include: National Governors' Conference, *Federal Road-*

blocks to Efficient State Government, Washington, DC, NGC, August 1976; Southern California Association of Governments, *Red Tape Reduction*, Draft Report of Managers Task Force, Los Angeles, CA, September 1976; U.S. Commission on Federal Paperwork, *Environmental Impact Statements*, Washington, DC, U.S. Government Printing Office, February 1977; U.S. Commission on Federal Paperwork, *Federal/State/Local Cooperation: Final Report*, draft, Washington, DC, June 29, 1977.

⁷Subcommittee on Intergovernmental Relations, *The Federal System as Seen by Federal Aid Officials*, U.S. Congress, Senate, 89th Cong., 1st Sess., Washington, DC, U.S. Government Printing Office, Dec. 15, 1965.

⁸Advisory Commission on Intergovernmental Relations, *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials* (A-54), Washington, DC, U.S. Government Printing Office, March 1977, pp. 46-56.

⁹*Ibid.*, p. 53.

¹⁰*Federal Register*, Vol. 41, May 17, 1976, p. 202096.

¹¹*Ibid.*

¹²James A. Noone, "Environmental Report/NEPA Suffers Set-

- back in Housing, Wins Transit Attack," *National Journal Reports*, Aug. 24, 1974, p. 1269.
- ¹³Deil Wright, *Federal Grants-in-Aid: Perspectives and Alternatives*, Washington, DC, American Enterprise Institute for Public Policy Research, June 1968, p. 81. See also *Chapter III* of this volume.
- ¹⁴Committee on Public Works and Transportation, *To Consider Amendments to the Urban Mass Transportation Act of 1964 to Provide Operating Assistance for Projects Located in Areas Other Than Urbanized Areas, to Provide for Mass Transportation Assistance to Meet the Needs of Elderly and Handicapped Persons, and for Other Purposes, Hearing Before the Subcommittee on Surface Transportation*, U.S. Congress, House, 94th Cong., 2nd Sess., 1976, p. 201.
- ¹⁵Charles O. Jones, and Robert D. Thomas, Eds., *Public Policy Making in a Federal System*, Beverly Hills, CA, Sage Publications, 1976, p. 49.
- ¹⁶John P. Gould, *The Davis-Bacon Act: The Economist of Prevailing Wage Laws*, Washington, DC, American Enterprise Institute for Public Policy Research, 1971, p. 13.
- ¹⁷U.S. Department of Housing and Urban Development, Office of Audit, *Environmental Review*, Washington, DC, HEW, December 1976.
- ¹⁸James L. Sundquist, *Making Federalism Work*, Washington, DC, The Brookings Institution, 1969, p. 270.
- ¹⁹Derthick, *op. cit.*, p. 200.
- ²⁰*Federal Register*, Vol. 41, April 30, 1976, p. 8234.
- ²¹See the testimony of Richard W. Hedding, on behalf of the National Capital Area Chapter of the National Paraplegia Foundation, in *Hearings Before the Subcommittee on Surface Transportation*, U.S. Congress, House, 94th Cong., 2nd Sess., pp. 224-34.
- ²²U.S. Department of Housing and Urban Development, *op. cit.*, pp. 8, 15.
- ²³*Federal Register*, Vol. 41, April 30, 1976, p. 8234.
- ²⁴For example, Title VI of the *Civil Rights Act of 1964*, the *National Environmental Protection Act of 1969*, the *Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970*, and Section 504 of the *Rehabilitation Act of 1973*.
- ²⁵Alan A. Altshuler, *The Politics of Federal Bureaucracy*, New York, NY, Dodd, Mead, and Company, 1968, p. 275.
- ²⁶U.S. Civil Rights Commission, *Federal Civil Rights Enforcement Effort—To Eliminate Employment Discrimination*, Washington, DC, U.S. Government Printing Office, 1975, p. 618.
- ²⁷U.S. Comptroller General, *The Equal Employment Opportunity Commission Has Made Limited Progress in Eliminating Discrimination*, (HRD-76-147), Washington, DC, U.S. General Accounting Office, Sept. 28, 1976.
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Chapter VIII

The Views of Local, State and Federal Officials

In *Chapter III*, the general posture of the major public interest groups (PIGs) with respect to the issue of block versus categorical grants was briefly noted. The policy positions of five PIGs on this issue are presented in more detail in this chapter. In addition their official views with respect to various administrative and other aspects of the intergovernmental grant system are described. These descriptions of the PIGs policy positions are taken from their officially adopted policy papers, as of May 6, 1977.

This chapter also summarizes certain findings in several recent surveys of the views of administrative officials engaged in grants administration at the local, state, and federal levels. The results of these surveys are presented in full in an accompanying volume of this series—*The Intergovernmental Grant System as Seen by Local, State, and Federal Officials*.¹ Pertinent findings from the surveys have been cited in the other volumes dealing with improving federal grants management and the states and intergovernmental aids.² References to the surveys in this chapter will focus on the views of the concerned officials with respect to categorical aids generally and administrative issues not touched on in the other volumes.

OFFICIAL POLICY POSITIONS OF NATIONAL ASSOCIATIONS

Five national associations of state and local officials have made official statements dealing in some way with the nature and problems of federal grants. These groups are the National Governors' Con-

ference, the National Conference of State Legislatures, the United States Conference of Mayors, the National League of Cities, and the National Association of Counties.³

The National Governors' Conference

Under the heading of "Executive Management and Fiscal Affairs," the National Governors' Conference (NGC) *Policy Positions 1975-76* has several references to federal grants-in-aid. On the subject of "Federal Grant-in-Aid Omnibus," the position paper states:

The federal government—the President, Congress and the administering agencies—should work closely with state officials in developing appropriation and administrative procedures to provide maximum flexibility in carrying out program objectives and maximum certainty of federal action. Specifically, the Conference endorses the following concepts:

A. Utilization of the block grant approach for new aid programs and support of broad national purposes.

B. Fundamental reorganization of a large number of existing programs into several broad areas on a permanent basis. Grouped programs should be those that share a consistent pattern of purpose. The

following provisions represent concepts embodied in this type of proposal:

1. Automatic allocation of grant funds by careful and meaningful formula rather than narrow project specifications.

2. Flexible and dependable formulas for passing certain funds directly to local governments.

3. Deletion of matching and maintenance-of-effort requirements as a prerequisite to receiving aid.

4. Clear definition of the state as critical to program coordination planning and evaluation, with gubernatorial review replacing cumbersome federal approval processes.

5. Reasonable transitional stipulations such as hold-harmless clauses, which would guarantee state and local jurisdictions at least as much revenue from each new program as from the total of the old programs being consolidated.

C. Continued expansion of joint funding simplification programs, to allow federal agencies to cooperate with state requests to combine several grants in the administration of one state program.

D. Appropriations consonant with authorization, to provide a greater degree of certainty in the amount of funding to be expected.

E. Advanced funding for at least two years, especially for construction projects, so that the necessary contracts can be let with assurance of fulfillment.

F. Annual appropriations before the start of the fiscal year to provide the states sufficient lead time for planning the program and hiring the staff....

H. Continued decentralization of federal agency decisionmaking in program administration to the 10 standard federal regions, with particular emphasis on providing regional federal agency administrators with broad authority to tailor the administration of programs to meet the unique and diverse needs of the states within each region.

The National Governors' Conference asserts that any changes in the grant-in-aid system must be directed toward the simplification of procedures and the mini-

mization of regulations and restrictive program requirements. The mechanisms of federal assistance must not be allowed to impede the intent of that assistance. The Conference supports any federal efforts directed toward the streamlining of the administrative mechanism used to process and distribute federal funds. Further, the Conference asserts that economic, social and ecological challenges can be dealt with at state and local levels, and that operational changes in aid programs must allow and encourage problem-solving ability at these levels.⁴

In its introduction to the above general statement, the NGC statement notes that many of the individual policy statements deal with the issue of grants-in-aid with respect to individual programs. For example the statement on "Community Development Grants" states:

A. Federal funds for community development activities, both rural and urban, [should] be in the form of broad block grants to the states, allowing them to develop and operate their own state systems for setting and directly implementing community development priorities.⁵

Again under the heading of "Education," it states:

The Conference supports consolidation of existing federal grant-in-aid programs for education into broad functional categories. It further supports maximum administrative simplification of planning, application, allocation, accounting and reporting procedures for all consolidated grant-in-aid programs. Every effort should be made to develop the necessary fiscal and administrative capacity in the states to assume effectively the responsibility for consolidated grant-in-aid programs.⁶

And finally, on the subject of "Manpower," the NGC paper states:

The Conference strongly opposes legislative proposals to establish additional categorical manpower programs and efforts to provide a national guarantee of funding levels

by prime sponsors for particular programs and instead urges increased decategorization of manpower programs.⁷

The National Conference of State Legislatures

The National Conference of State Legislatures (NCSL), in its *Goals for State-Federal Action 1975-76*, states:

The NCSL supports the efforts of the President and the Congress to improve the delivery of federal grants-in-aid to state and local governments. Because of the importance of this issue to the states, the Conference urges the Congress to give high priority to implementing new forms of federal aid. Particular emphasis should be given to the concept of grant consolidation and the creation of block grants which reduce the number and complexity of categorical grants while providing for increased emphasis upon state and local priorities in the expenditure of federal funds For purposes of planning, states must be able to expect as much revenue from each new program as from the total of the old programs being consolidated.

In order to provide a greater degree of certainty in the amount of federal funding which can be expected by the states, we request that appropriations be consonant with authorizations.

For the purpose of providing adequate and meaningful planning at the state level, we urge Congress to make annual appropriations prior to the beginning of the fiscal year.⁸

NCSL projects its general position with respect to grant consolidation into recommendations for reform in certain functional areas. For example in regard to federal planning grants, NCSL states:

The proliferation of federal categorical planning grants has often created counterproductive or duplicative planning efforts at the state and local government levels. Due to the functionalist orientation of these varied planning grants, state legislatures

have generally been unable to benefit from their assistance. . . .

The NCSL urges Congress and the administration to consolidate all federal programs that are predominately for planning into a single formula planning grant program which will be accessible to every legislature through the state's appropriations process.⁹

Another example is provided in the area of manpower consolidation, where NCSL's goals paper reads as follows:

The NCSL believes . . . that federal, state, and local resources could be further enhanced through the expansion of block grants to include the consolidation of other manpower-related programs. Such consolidations of manpower-related programs would promote comprehensive and integrated services delivery compatible with national, state and local priorities. Programs which should be considered for consolidation include the Work Incentive Program, Vocational Rehabilitation, Vocational Education, Employment Service and the Job Opportunities Program. . . .

The NCSL also believes that, consistent with the concept of block grant funding, policy decision, directions and guideline determinations should be made at the national, state and local level and that regional federal activity should be reduced to technical assistance and consultative and evaluative activities.¹⁰

U.S. Conference of Mayors

Among the resolutions adopted by the U.S. Conference of Mayors (USCM) at its 44th Annual Conference in June 1976 was the following:

Whereas, the policy of the United States Conference of Mayors, has consistently favored block grants over the years; and

Whereas, the President has proposed in the fiscal year 1977 budget that the block grant concept be confirmed or effected in the areas of health and education; and

Whereas, block grants administered through state government must reflect local

needs in order to be effective,

Now, therefore, be it resolved that the United States Conference of Mayors hereby supports and endorses the block grant systems of grants to state and local governments which achieve the following basic principles:

- predictable multiyear level of funding;
- program development and commensurate funding based on specific national goals and standards;
- local flexibility in program design and administration;
- adequate levels of funding including, at a minimum, yearly increments to account for inflation;
- direct federal-local allocation system, and

Be it further resolved that when direct federal-local allocations are not feasible, the United States Conference of Mayors calls upon the administration and Congress to invest all state-administered block grant programs which affect local government with adequate pass-through of funds and an effective role by local governments in the planning and use of such program funds by state governments.¹¹

Another resolution adopted at the same time reads:

Whereas, a web of entangling regulations has bureaucratized the system of federal grants-in-aid; and

Whereas, these regulations often work to unnecessarily delay and complicate the administration of programs; and

Whereas, such regulations, often counter to the intent of the legislation, burden local officials with unwarranted restrictions, limiting local options, and adding unnecessary costs through arbitrary administrative requirements, resulting in a reduction of the effectiveness of programs; and

Whereas, federal efforts have been made to reduce and simplify existing regulations and to insure that future regulations are not burdensome or arbitrary; and

Whereas, such reductions of entangling regulations is completely in line with the National Commission on Federal

Paperwork,

Now, therefore, be it resolved that the U.S. Conference of Mayors, urges the Congress and the administration to frame and enact policy and legislation which will prevent extensive and unwarranted program regulation.¹²

In more specific areas Resolution 16 adopted by the USCM urges Congress to authorize guaranteed, multiyear funding of major and/or ongoing public works projects for cities under existing and new legislation.¹³

Resolution 32, under the heading of "Social Services and Other Block Grant Programs," resolves that municipal governments be encouraged and assisted to participate in the state planning process for block grant programs to an extent appropriate with their needs. It further resolves that the Department of Health, Education, and Welfare should either provide direct funding or mandate pass-through of Title XX funds to cities to enable them to coordinate their own activities with those of Title XX to build an appropriate role in the social services delivery system. Finally this resolution stated that the USCM would support proposed community services block grant legislation upon a condition that a nonfederal share is required, a maintenance-of-effort provision is retained, the allocation formula among the states is changed to reflect need as well as population, and cities are given the opportunity to participate in the state planning processes to an extent consonant with their needs.¹⁴

USCM also went on record to support continuation of the block grant in the housing and community development area. Resolution 70 urged Congress and the administration to expeditiously reauthorize the *Housing and Community Development Act of 1974*, incorporating the following basic principles: direct block grants to units of general purpose local governments; local flexibility in designing program approaches incorporating a broad range of activities including both physical development and related social services activities; an equitable formula and allocation system that adequately maintains and continues all existing entitlement cities at or above current program levels; a long-term multiple year funding arrangement with, at a minimum, an annual increment to offset inflation and 100% federal funding; and a streamlined application and review process with timely approval based on minimum red tape, minimum oversight, and an evalua-

tion of local performance on the basis of meeting the legislation's national goals.¹⁵

The National League of Cities

The National League of Cities' (NLC) *National Municipal Policy* for 1976 states as follows:

Grants-in-aid must be continued to serve the vital purpose of reaching individual national objectives. General revenue sharing must not be viewed as a substitute mechanism for meeting these objectives. But, we strongly advocate the continued consolidation and restructuring of these grants-in-aid into a more workable system of fewer, broad categorical or block grants. This will encourage local control of program expenditures, allow development of priorities for city expenditure patterns, encourage program integration and permit coordination and diverse activities of city government.¹⁶

With respect to improving the grants-in-aid system effectiveness, NLC urges that the federal government provide greater consistency and uniformity of administration and eligibility requirements, and provide a mechanism whereby the President can consolidate and simplify grant programs by executive order subject to Congressional veto and whereby Congress will review and reevaluate all elements of the grant system at regular intervals.

Like the other PIGs, NLC favors the block grant approach in its policy positions on various functional matters. On the issue of housing, for example, NLC states:

Community development objectives necessitate the consolidation of the present array of federally assisted housing programs for low and moderate income persons into a single, flexible housing block grant to units of general purpose local government.¹⁷

On human resources programs it states that "programs should be consolidated into block grant programs to provide flexibility in order to permit adaptation to local needs. In implementing those programs, there should be few regulations and little

red tape. Local governments cannot effectively administer programs which specify minute administrative details,"¹⁸ Finally regarding social services, NLC states that:

Ultimately services programs should be combined and block grants to state and local governments be provided. Such a program would include national goals, performance standards and evaluation criteria in order that the program is understandable and accountable to the public.¹⁹

National Association of Counties

The National Association of Counties (NACo) incorporates its official policy statements in the *American County Platform*. The 1976-77 platform addresses the issue of federal grants in a fashion similar to that used by the four other groups—a general statement or statements about federal grants and specific references to individual functional areas. Under the heading "Flexibility in Federal Grants," the platform states:

The Congress and the administration must realize that local governmental agencies are better equipped to implement federal programs in their local communities than are remote federal officials. The Congress and the administration must therefore provide more flexibility to counties and other local agencies in the administration and utilization of federal grant programs and monies by:

A. Consolidating existing grant-in-aid programs into general "program area" block grants.

B. Developing new programs based on the "block grant" concept, which requires comprehensive short and long range planning as the only criteria for grant utilization.

C. Reducing the complexity of grant application and reporting procedures.

D. Reducing the number and/or type of "strings attached" to federal grant programs.

E. Requiring all agencies to comply with the federal government regulations which

call for a simplification and standardization of grant applications, procedures and recovery of direct and indirect costs.²⁰

On specific functional references NACo strongly supports the concept of federal block grant funding for community development activities embodied in the *Housing and Community Development Act of 1974*;²¹ urges consolidation of major categorical education programs and other proposals to reform the methods of federal, state, and local aid to education;²² views the *Comprehensive Employment and Training Act of 1973* as a commitment to the principles of decentralization and decategorization, and as the basic vehicle for responding to the employment needs of county resident,²³ and urges replacement of the present health block grant with a new provision authorizing the federal payment of a certain percentage of expenditures incurred by state and local public health departments and health care agencies in carrying out public health programs.²⁴

NACo also takes a position on policies governing distribution of federal grants. On the issue of equalization, it recommends that all federal grant administering departments and agencies periodically review the adequacy of the need indices used in their grant programs and the appropriateness of their equalization provisions; urges such agencies that distribute funds directly to local governments to examine programs in order to assess the extent to which variations in local fiscal capacities should be recognized in the distribution and to appraise the feasibility of applying equitable equalization provisions to such grants; and recommends that states recognize, as far as practicable, disparities in fiscal needs and resources among local governments in the pass through of federal grant funds.²⁵

THE VIEWS OF INDIVIDUAL LOCAL AND STATE OFFICIALS

The policy positions of the five public interest organizations represent the collective views of their leaders arrived at through an organized deliberative process. The surveys of state and local officials were intended to solicit the opinions of officials who make up those public interest organizations, mainly concerning their individual experiences with what are generally considered to be the chief problems in administering federal grants. The objective was to tap reactions at the grass-roots operating level.

ACIR-ICMA Survey of City and County Executives

One piece of factual information sought from the city and county officials in this survey, conducted by the Advisory Commission on Intergovernmental Relations (ACIR) and the International City Management Association (ICMA), was the number of grants they receive. The continuing proliferation of categorical grants on a total basis is well known. The ACIR-ICMA survey wanted to find out how this condition was affecting localities in terms of volume of separate grants.

In the survey 199 cities reported receiving grants in both 1974 and 1969, permitting a comparison of the change in the number. These 199 cities reported an average (mean) of 4.1 grants received in 1969 compared with 8.8 in 1974, or an increase of almost 115% in the five-year period. Forty counties provided information on the number of grants received in 1969 and 1974 and reported receiving an average of 7.7 and 18.4 grants, respectively, or an increase of 139.0%. Because many cities and counties receiving grants in 1974 did not receive any in 1969, and therefore were excluded from the comparison, these percentage increases likely may be an understatement of the average city and county changes in volume of separate grants received.²⁶ Even relying only on the figures for the two groups of localities that received grants in both years, the increases over the five-year period are quite striking and explain why a continuing chorus of complaint arises from states and localities about the proliferation of categorical grants. Proliferation, after all, had been a major source of tension in the mid-1960s.

BLOCKS AND CATEGORICALS

A set of questions probed the local officials' views on the impact of categorical grants as compared to block grants. Responding city officials believed that categoricals tend to skew local priorities more than the criminal justice and health block grants. County officials also saw a difference between the two grant forms, but the prime differentiated program was the health grant, not both block grants. Both city and county officials stated that block grants overall, and the criminal justice program in particular, had more of a lasting stimulative effect than the categoricals.²⁷ This conclusion contrasts with the generally held belief regarding the impact of these grants.

Another subject in which experience with categorical and block grants could be compared was the predictability of federal grant funds flow. One of the most frequent criticisms of the federal grant system heard at the local level is the great uncertainty in estimating the amount and timing of grant funds. To assess the seriousness of this fiscal planning problem, the survey sought to compare federal grants—categorical and block grants listed separately—with ten other major sources of local revenue. It asked the local officials to rank 1 and 2 the two revenue sources that created the most difficulty in their estimating and planning purposes, considering the dollar amount involved as well as the degree of certainty in assessing the degree of difficulty.

The responses indicated that local officials definitely believe that the categorical grant is the most difficult to estimate for budget planning purposes. Although federal block grants ranked second, they had far fewer “votes” than categoricals. This difference may be traceable to the entitlement features of the community development and manpower block grants, which probably inject more predictability in estimating revenues. Over two-thirds of the categoricals are project grants, which lack the relative certainty of fund flow that comes with a legislative or regulatory formula. Also the relatively small number of block grants compared to categoricals makes the estimating problem one of an entirely different magnitude. Yet the distribution of criminal justice moneys by the state to localities entirely on a discretionary basis adds an element of uncertainty to the budgeting of that block grant.

Among the most frequently cited reasons for the uncertainty in the flow of both types of grants were the uncertainty of Congressional authorization and appropriation actions, along with the awkwardness of receipt timing in relation to the recipient’s fiscal year.²⁸

CATEGORICAL PROBLEMS IDENTIFIED

A cluster of questions probed the administrative impact of federal grants as seen by these local officials. What are the major problems at the point of service delivery? Are they any worse now than they were in the last decade? Are they worse for project grants compared to formula grants?

The questionnaire listed 25 problem areas in the design and administration of categorical grants (not block grants). The respondents were asked to identify the five that cause the most difficulty for their

locality. The complexity and volume of paperwork involved in the project grant process was by far the most frequently identified problem by both city and county officials, marked by 71.5% of the former and 64.4% of the latter. This problem probably approximates what many people would identify as “red tape.”

The next four most serious friction points as seen by the city officials were: the time involved in the application, review, and approval process for project grants; obtaining clear and prompt policy interpretations from federal grant administrators; the complexity of reporting, accounting, and auditing requirements; and inadequate consultation provisions with state and local officials in the development of regulations and guidelines. For the counties these four problems stood at the top of their list following “red tape,” except that they ranked the difficulty of obtaining clear and prompt policy interpretations from federal administrators as the second most serious problem. The top eight items were the same for both groups of respondents.

Two points stand out in viewing these eight top-ranked problem areas. First, those that have been the focus of grant administration reform efforts in the past decade still are viewed as the key sore spots. Pessimists might interpret this observation as testimony to the failure of the various efforts at reform of categorical grant administration, such as the Federal Assistance Review (FAR) program. Optimists, on the other hand, might say that without the various administrative reform efforts, the condition of categorical grants might be even worse than it is currently.

The second generalization is that the top-rated problems are mainly those of administrative implementation rather than Congressional design and responsibility. Of the eight items rated most pressing by both city and county officials, the two that can be fairly regarded as basically requiring Congressional action are “frequency in timing of changes in program priorities” and “the narrowness of scope and the number of program categories.” Of course the top-rated paperwork and delay problems are identified with project grants, and the decision to use project rather than formula-based categorical grants or block grants is a Congressional choice. However many project grants do exist and it is an administrative responsibility for efficient management with a minimum of grantor-grantee friction. That they are not so managed in the view of local officials is clear from these responses and basically is

a reflection of the quality of administration and, probably, the nature of the grant.

The final observation on the ranking of problems relates to those that are the least vexing. For both cities and counties, the question of fund allocation formulas, the severity of performance standards and the strictness with which they are applied, and the centralization of decisionmaking in Washington, DC, were the least troublesome in the inventory of 25 problem areas. They were markedly less bothersome in the view of these local officials than problems caused by the volume of paperwork, delay, and specific financial management requirements.

Probing these problem areas further, the officials were asked whether the five most serious problems had improved, remained the same, or deteriorated in the past five years. Both city and county officials indicated a general belief that all the five problems had become worse.

A followup question sought to ascertain whether these most common problems were more characteristic of formula or project grants, or applicable equally to both. Because two of the top five problems concerned project grants only (the red tape and time involved in the project grant process), only three problems could be subjected to the formula/project comparison. A sizable majority of both city and county officials thought that all three problems were applicable to both formula and project grants. However of the officials who thought that these problems were not equally applicable to both types of grants, many more found project grants to be the greater problem than formula grants, by a ratio of as much as 6-to-1 in the case of city officials' rating of "the complexity of reporting, accounting, and auditing requirements."²⁹

GENERAL OBSERVATIONS ON THE GRANT SYSTEM

About one-sixth of the city officials and about one-fourth of the county officials responded to the invitation to submit comments on any of the questions or on the overall functioning of the federal grant system. Their comments generally confirm and supplement the conclusions drawn from the responses to individual questions.

The most frequent comment was the general or specific expression of dissatisfaction with the administration of categorical grants and the federal grant system as a whole. These complaints ranged from sweeping condemnations of the administrative

system to criticisms of various specific features. "Too much paperwork" appeared often.

The second most common comment was an expression of preference for general revenue sharing over either block grants or categorical grants. Although the block grant appeared to be preferred over the categorical grant, observations about the block grant experience were by no means entirely favorable. Among the negative comments were views of some that block grants merging previously existing categorical grants were, or were becoming, burdened with as many strings as the categoricals they replaced. The lack of enthusiasm for the block grant may be explained in part by most existing block grants (health, criminal justice, social services, and, to some extent, manpower) being passed through to localities by the state.

Another group of comments stressed the special problems of small cities, which appear to be of two kinds: small cities' inability to afford the staff required to compete for grants with the larger cities and administer programs once grants are received, and alleged discrimination against small cities in funding. Much of this criticism was directed at the community development block grant and its 50,000 population minimum for entitlement grant eligibility.

The role of Congress was another point of dissatisfaction. Among the irritants were the on-again, off-again funding of programs, the delegation of too much discretionary authority to grant administrators, the channeling of too much money to research rather than operations, and Congress' failure to provide more general support money for basic local government operations.

A final group of comments indicated that certain across-the-board requirements, as well as those specific to individual programs, were beginning to cause considerable local irritation. These included uniform relocation assistance requirements, environmental impact statements, Davis-Bacon provisions, citizen participation, and civil rights requirements. Some officials believed that these types of requirements were reducing some advantages that block grants and general revenue sharing had over categorical grants. Another general comment was that small cities were again particularly vulnerable to this kind of problem.³⁰

Survey of State Budget Officers

State budget officers were the target of the state survey conducted by ACIR with the endorsement of

a committee of the National Association of State Budget Officers (NASBO). State budget officers were viewed as perhaps the single best group of state officials to comment on the impact of federal grants on state governments. However their orientation as being more fiscal than operational was recognized, and as a result, the questions were more concerned with fiscal than program effects, and with executive-legislative relationships.

- The budget officers believed that the attachment of procedural conditions by a state when passing federal funds through to local governments tends to accompany federal project grants more than formula grants and tends to increase with the proportion of federal grant funds that are channeled.³¹
- A large minority believed that inkind matching produces little or no actual contribution of state resources for the aided program. This stance raises doubts about the effectiveness of inkind matching as a device for committing actual state resources.³²
- Over half of the responding officials agreed that inkind or zero matching strengthens the discretionary power of the governor and administrators and weakens the legislature's control over the budget and administration.³³
- States vary in the degree to which their governors exercise influence over federal grants through approval of state applications for grants, approval of state acceptance of grants, inclusion of federal grants in the proposed executive budget, and approval of funds passed through to the localities.³⁴
- Except for a generally prevailing insistence on including federal grants in appropriations, state legislatures are inclined to refrain from exerting their authority in states' processes of determining the receipt and disposition of federal grants. In general legislatures have not taken as much advantage of their opportunities to exercise control over the flow of federal grant funds as have the chief executives.³⁵

Survey of State Administrators

The 1974 survey of a cross section of state administrators by Deil S. Wright and Elaine Sharp canvassed a broad array of state officials, many of whom are involved with federal grants as administrators of service programs, channelers of grants to localities, or both. This survey offered an opportunity to supplement extensively the information on grant effects at the state level obtained from budget officers in the ACIR/NASBO survey.³⁶

State administrators, according to the survey, viewed existing federal aid arrangements as interfering with the state's middle-level role between the national and local governments. Thus 75% thought that federal aid had led to national interference in affairs that are the appropriate province of the states. Also 74% believed that federal aid tends to skew the overall character of state programs.

The comparison with earlier surveys (which included only state administrators of federal aids, rather than all state administrators, whether or not they received federal aids) reveals heightened concern at the state level over federal aid interference. In 1928 only 6% of those surveyed thought that federal aid led to interference; by 1948 that proportion increased to 36%; by 1974, to 81%. In 1948 29% believed that federal aids skewed state programs; in 1974, the figure reached 83%.³⁷

On the issue of the different types of aid, 40% or more of the respondents thought that the funding level of general revenue sharing and block grants was too little; only 29% saw the levels for categorical grants as too little.³⁸

On the subject of certainty of federal grant revenue flow, state administrators believed that the past decade has been one of increasing uncertainty (real or imagined). In 1964 39% of the administrators stated federal aid seemed uncertain and produced estimating difficulties; in 1968 the proportion rose to 68%; and in 1974 to 76%. No doubt the massive increase in aid and in the number of program authorizations contributed to actual and perceived uncertainty.³⁹

State-level aid administrators apparently are becoming less impressed with the positive effects of federal supervision and oversight of grant programs on state administration and services. In 1928 68% believed that federal supervision and oversight had improved standards of administration and services in grant programs; this went up to 70% in 1948, but dropped to 46% in 1974. In part this drop may reflect

a heightened standard of performance at the recipient level, due to, in part, earlier federal supervision and oversight. It may also mirror, however, the increasing number of narrow as well as broad categorical programs and the new functional areas into which they brought the states.⁴⁰

A majority of state agency heads receiving federal aid were not satisfied with the flexibility of federal administrators in applying federal standards.⁴¹ Again this dissatisfaction probably reflects the dominance of the detailed categorical grant that gives state administrators less discretion at the state level than in the case of general revenue sharing or block grants.

Nearly two-thirds indicated satisfaction with the existing matching arrangements. However this number was a slight drop from the percentage responding positively to a similar question in 1948. In contrast only 45% were satisfied with allocation provisions in their program field, down substantially from the 78% who expressed satisfaction in a 1948 survey. It is not known to what extent this drop reflects the increased number of formula allocation grants rather than dissatisfaction with the allocation provisions themselves.⁴²

In a final question related to the restrictions imposed by categorical grants, over two-thirds of the state-level aid administrators stated that they would prefer to allocate federal aids in a different manner from the one(s) imposed by federal requirements. Administrators who hold this view are on the increase—from 53% in 1964, to 57% in 1968, to 70% in 1974. Significant majorities of the respondents wanted federal aid increased for both existing and new programs. Yet this response was greater for new programs (76%) than for existing ones (68%). Corresponding responses in a 1948 survey were 52% and 78%, indicating that state agency heads have spending preferences that are not close to the framework and pattern specified by present federal aid categories.⁴³

SOME EXPLANATIONS

The state administrators survey sought to probe the reasons for various answers by correlating the answers with two independent variables: the attitudes or attributes of the state administrators, and the characteristics of their agencies. Some correlations aid in understanding the functioning of the categorical system and the tension between categorical and block grants.

Correlations indicate, for example, that administrators who are part of the generalist, gubernatorially oriented, pro-state government complex are most likely to favor approaches, such as block grants and general revenue sharing, that minimize or undercut the specialists' vertical relationships and replace them with state-oriented general interests. This is, of course, a confirmation of the familiar basic conflict between generalists and specialists in the intergovernmental grant system.⁴⁴

Greater diversity and complexity of federal aid received and greater dependency on this aid also seem to cause state agency heads to dislike categorical grants. By the same token these officials clearly favor block grants, because they hold great attractiveness for the apparently harried agency head deeply enmeshed in manifold federal grant requirements. These findings suggest the important (yet crude) conclusion that simplicity correlates with satisfaction in the intergovernmental grant system. State administrators who must deal with multiple sources and types of aid are most enthusiastic about an aid strategy that minimizes the complexities currently present in aid systems and strategies.⁴⁵

The analysis found that no particular subgroups of state agency heads exist that were exceptionally satisfied or dissatisfied with the matching requirements and apportionment formulas by which they secure federal aid.⁴⁶ Yet satisfaction with the flexibility of federal aid administrators, matching arrangements, and apportionment formulas dropped dramatically as the size of the agency increased.

This negative relationship between the degree of federal aid involvement and satisfaction with certain aspects of federal aid does not necessarily imply disfavor or dislike of federal aid generally. Administrators who are deeply involved with federal aid would be more aware of and sensitive to existing policy in these areas. Where any problems exist they would probably also have a greater stake and intensity in making changes that produce higher levels of satisfaction.

Thus administrators of agencies more involved with federal aid are more likely to prefer changes in existing aid allocations, increased aid to present programs, and expanded aid to new programs. In general these administrators as well as the functional specialists expressed satisfaction with current arrangements and support needed changes on federal aid. On the other hand the same groups also were those least satisfied with present administrative and financing arrangements.⁴⁷

SURVEY OF FEDERAL ADMINISTRATORS OF GRANT PROGRAMS

The final attitudinal survey conducted for this study was directed at the federal administrators of grant programs. It was undertaken for several reasons. One was to obtain the view of the system from the federal end of the grant pipeline. Another reason was to get the perspective from the implementation side at the federal level in contrast with the Congressional legislative and oversight vantage point that was explored in *Chapter III*. By probing federal grants managers, all the principal governmental actors in the federal-state-local nexus would be accounted for: Congress, the administrators of grants at the federal level, policy officials at the state and local levels, and key administrators at the state and local levels.

Federal administrators revealed a general level of satisfaction with the design and implementation of the categorical grant programs for which they were responsible. This conclusion is based on their assessment of how their programs measured up to a list of 34 elements that were suggested as "necessary for the design and administration of categorical grant programs so that they are effective and foster healthy intergovernmental relations."

The need for substantial improvement was seen by these officials as greatest in the area of more adequate program authorizations and appropriations and more adequate funding for administration and authorization of staff. Significantly these areas are essentially Congressional responsibilities.

Also rated high among the elements needing improvement were three that require action by states and localities: better organization and staffing by grant recipients; states' exercise of more effective influence on local government when channeling federal aid to localities; and better recipient coordination of grant-aided activities with other state or local activities.

On the other hand these administrators acknowledged liabilities in two elements of categorical grant administration for which they are directly responsible: monitoring of recipients' conformance with plans, procedural requirements, and performance standards; and expeditious issuance of regulations, guidelines, and policy interpretations.⁴⁸

Another aspect of their own responsibility that may be construed to be defective by their own testimony was the area of inservice training. A large

number indicated little concern for inservice training activities as an important element in the administration of their programs.⁴⁹

Providing further insight into their criticisms of the organization and staffing by state and local recipients, 43% of the administrators believed that state and local personnel problems affected the administration of their grant programs. This percentage was substantially higher for administrators of the larger money programs. Yet comparison with answers to a similar question on a 1964 survey indicates that federal grant administrators in 1975 found state and local grantees' personnel practices noticeably improved over 1964. Their more positive attitude was accounted for, in part, by their view that less state or local agency personnel turnover occurred than 11 years earlier.⁵⁰

Nineteen percent of the grant officials believed that the administration of federal aid programs would be improved by channeling all state and local requests for federal aid through state budget bureaus or similar central units. This belief represents a decided shift from the 2% who responded similarly to a parallel question in a 1964 survey.⁵¹

Thirty-four percent of the respondents stated that their programs should give greater recognition to variations in the fiscal capacity of state and local governments—a 10% increase over the response in a 1964 survey.⁵²

Finally only 18% of the federal grant administrators believed that special revenue sharing or block grants would help states and localities meet their program needs better than narrow categorical grants and/or the transfer of funds between narrow categorical grants. Forty-three percent believed that fund transfers between narrow categorical grants would help. These responses not unexpectedly evidence the continuing appeal of the categorical grant to the vast majority of grant administrators at the federal level.⁵³

SUMMARY AND CONCLUDING OBSERVATIONS

Major Public Interest Groups

All five national associations of state and local officials support block grants and consolidation of existing categorical grants versus continuation and extension of the categorical approach. Their official policy pronouncements clearly establish this

basic position and call for other changes in the grant system consistent with that position.

Among such recommendations specifically identified in the policy positions, the National Governors' Conference (NGC) favors formula over project grants and the retention of hold-harmless provisions in future grant consolidations, the expansion of joint funding, provision of more funding certainty by making appropriations consonant with authorizations, and advance funding, at least for construction projects. The National Conference of State Legislatures echoes the recommendation for funding certainty and the U.S. Conference of Mayors (USCM) endorses multiyear funding. The National Association of Counties calls for Congress and the administration to review the adequacy of need indices in allocation formulas, and for improvement and extensions, where indicated, of equalization features in federal grants. The National League of Cities favors Presidentially initiated grant consolidation plans subject only to Congressional veto.

One might expect some divergence of views among the five groups on some of the recommended changes, considering the inherent tensions between state and local governments, between cities and counties, and between the executive and legislative branches at the state level. In fact differences do exist in the specific grant-in-aid issues covered in these policy statements, due to, in some degree, the differences in the purposes of the statements, in the organizations' assessments of the seriousness of various problems, and in their procedures for developing institutional positions. Yet little disagreement exists when two or more of the associations comment on the same issue. Thus on one issue where a state-local conflict has appeared in the past—the pass-through of federal grants to localities—NGC calls for passing certain funds directly to local governments, cautioning only that flexible and dependable formulas should be used. For its part USCM supports a direct federal-local allocation system as a basic principle, but when direct federal-local grants are not feasible, it asks for a provision of adequate pass-through and an effective role for local government in the state's planning and use of the funds.

The one clear conflict of views occurs on matching and maintenance-of-effort requirements. NGC urges deletion of both these types of requirements as prerequisites for receiving aid. USCM specifically favors maintenance-of-effort provisions for the community services block grant and also nonfederal matching.

Local Executives and State Administrators

Among the local executives and state administrators covered by the surveys, clear dissatisfaction arose with the categorical grant. This position was obtained from local officials in numerous ways, including their identification of the major problems in grant administration. They rated the complexity and volume of paperwork as the worst problem, stated that the five most serious are getting worse rather than better, and indicated that the uncertainty of fund flows was most troublesome with categorical grants.

A similar discontent could be detected in the state administrators' dissatisfaction with federal administrators' inflexibility and the increasing uncertainty in the flow of federal grant revenues, the growing restiveness over the skewing effect of federal grants, and the fact that state officials receiving the largest number of federal grants from the largest number of federal agencies disliked categorical grants the most. State administrators expressed other concerns over federal grants, but these could not be associated so exclusively with categorical grants; the belief that the federal government is increasingly interfering with the states' traditional middle-level role in the federal system, and the lessening of the positive influence of federal grant supervision and oversight.

Local officials indicated that they found project grants the most troublesome of categoricals, with problems including excessive paperwork, delays in processing applications, and uncertainty of funding. Also small cities believed they were at a severe disadvantage over project grants because of their inability to compete with larger localities for limited project funds. State administrators' attitudes toward project grants was less clear, possibly because they are not as involved with this grant type as are local officials. Some of their criticisms of categorical grants, however, are likely to be associated more with project than formula grants, such as the uncertainty of fund flow.

Although they were unhappy with categoricals, local officials did not register as clear a preference for block grants as one might assume. This situation may have been because they were not asked directly which form they preferred, as was the case in the state administrators questionnaire. Even if they had been, they may not have been so clearly in favor of block grants, because in the open-end comments, a number of local officials expressed disap-

pointment that block grants (particularly the community development block grant) seemed as encumbered with requirements and procedures as the categorical grants they superseded. Many local officials also voiced irritation with the across-the-board requirements, such as Davis-Bacon and relocation assistance, which apply to block and categorical grants and are continually increasing in number.

The state administrators were asked a question that enabled them to indicate directly their preference among grant types. Two-fifths or more thought that the level of general revenue sharing and block grants was too little, compared to only 29% who saw the levels of categorical grants as too little.

In assigning responsibility at the federal level for the problems of categoricals, local officials gave mixed answers. The management problems they identified seemed mostly attributable to implementation actions rather than to the design of the grant program—red tape, delays in processing fiscal accounting, reporting, and auditing requirements. Yet how much these may be ascribed to grant administration or the requirements of the authorizing legislation is a fine point. In addition, on at least one point, local officials held Congress responsible: the delegation of too much authority to administrators. On balance, therefore, local officials were attributing problem sources arising in both Congress and the administration.

The state surveys provided no reading on this issue. The budget officers' survey, however, threw light on an internal state problem that is affected by federal aids—the balance of power between the executive and legislative branches. Facts reported by the budget officials indicate that legislatures by and large have not performed their fiscal and program policy and oversight roles in the area of federally funded programs.

Federal Administrators

Some of the key results of the survey of federal administrators were much as expected:

- the emphasis placed on more adequate program authorizations and appropriations and better funding of administrative and staff costs if grant administration is to be upgraded;
- their stress on recipients' improving performance; and
- their strong preference for continued reliance on categoricals in their own program areas.

That these administrators showed general satisfaction with the design of grant programs was somewhat surprising, considering the frequent readiness of grants managers to attribute their administrative difficulties to the vague direction and unrealistic requirements provided in grant programs' authorizing legislation.

Encouraging was their acknowledgment that they needed to improve their own program monitoring, to expedite issuance of regulations, and to improve inservice training. Also heartening was the indication that federal administrators saw a distinct improvement in state/local personnel practices since 1964.

The increase since 1964 in the proportion of respondents who believed that it would be wise to introduce greater equalization into their programs' distribution of funds probably reflects the multiplication of social programs in the past decade. The stronger support for channeling local requests for federal aid through a central state agency may reflect a number of changes—a higher opinion of states' ability; more respect for states' middle-level role; less confidence in localities' ability; and a realization that the federal government is not capable of dealing directly with thousands of local jurisdictions. In turn these developments can mirror the continued growth in the number of narrow-based categorical grants—particularly project grants because they constitute the usual vehicle for direct federal-local grant relationships.

FOOTNOTES

¹Advisory Commission on Intergovernmental Relations, *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials* (A-54), Washington, DC, U.S. Government Printing Office, May 1977.

²See Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management* (A-53), Washington, DC, U.S. Government Printing Office, February 1977, and *The States and Intergovernmental Aids* (A-59), Washington, DC, U.S. Government Printing Office, February 1977.

³These five associations have united to form the New Coalition, whose purpose is to provide a unified voice for state and

local representatives on domestic issues pending before the federal government.

⁴National Governors' Conference, *Policy Positions 1975-76*, Washington, DC, NGC, 1976, pp. 13-14.

⁵*Ibid.*, p. 76.

⁶*Ibid.*, p. 32.

⁷*Ibid.*, p. 33.

⁸National Conference of State Legislatures, *Goals for State-Federal Action 1975-76*, Washington, DC, NCSL, 1976, pp. 29-30.

⁹*Ibid.*, p. 29.

¹⁰*Ibid.*, p. 34.

¹¹U.S. Conference of Mayors, *Resolutions Adopted, 44th Annual Meeting*, July 1, 1976, pp. 6-7.

¹²*Ibid.*, p. 7.

¹³*Ibid.*, p. 6.

¹⁴*Ibid.*, pp. 10-11.

¹⁵*Ibid.*, pp. 23-24.

¹⁶National League of Cities, *National Municipal Policy 1976*, Washington, DC, NLC, 1975, p. 5.

¹⁷*Ibid.*, p. 42.

¹⁸*Ibid.*, p. 46.

¹⁹*Ibid.*, p. 50.

²⁰National Association of Counties, *The American County Platform 1976-77*, Washington, DC, NACo, 1976, p. 86.

²¹*Ibid.*, p. 12.

²²*Ibid.*, p. 33.

²³*Ibid.*, p. 35.

²⁴*Ibid.*, p. 56.

²⁵*Ibid.*, p. 85.

²⁶Advisory Commission on Intergovernmental Relations, *The*

Intergovernmental Grant System as Seen by Local, State, and Federal Officials, *op. cit.*, pp. 10-11.

²⁷*Ibid.*, p. 24.

²⁸*Ibid.*, pp. 41-44.

²⁹*Ibid.*, pp. 33-39.

³⁰*Ibid.*, pp. 46-56.

³¹*Ibid.*, p. 91.

³²*Ibid.*

³³*Ibid.*, p. 93.

³⁴*Ibid.*, pp. 96-100.

³⁵*Ibid.*, pp. 101-05.

³⁶Budget officers were one of 68 functional categories of officials surveyed in the Wright-Sharp study and constituted 2% of the total respondents.

³⁷*Ibid.*, p. 126.

³⁸*Ibid.*, p. 127.

³⁹*Ibid.*, p. 129.

⁴⁰*Ibid.*, p. 130.

⁴¹*Ibid.*

⁴²*Ibid.*

⁴³*Ibid.*, p. 131.

⁴⁴*Ibid.*, p. 158.

⁴⁵*Ibid.*, p. 163.

⁴⁶*Ibid.*, p. 169.

⁴⁷*Ibid.*, pp. 173-74.

⁴⁸*Ibid.*, pp. 183-86.

⁴⁹*Ibid.*, p. 188.

⁵⁰*Ibid.*, p. 190.

⁵¹*Ibid.*, pp. 230-31.

⁵²*Ibid.*, p. 231.

⁵³*Ibid.*, p. 234.

Chapter IX

Findings, Issues and Recommendations

In this volume the Advisory Commission on Intergovernmental Relations (ACIR) has undertaken to update its appraisal of the federal categorical grant-in-aid. The Commission has reviewed the history, examined the rationale, counted and documented the number, and analyzed the key features of this workhorse of the federal grant system. ACIR also has examined Congress' role in the design and oversight of grant legislation, reviewed the attitudes of public interest groups and state/local officials toward the categorical grant, and identified some of the more pressing difficulties currently afflicting this instrument of fiscal aid. The major findings from the review follow.

MAJOR FINDINGS

Continuing Fragmentation

1. Although the number of categorical grant programs to state and local governments has grown steadily over the past decade, reaching a total of 442 funded programs in FY 1975, they are well below the 1,000-1,600 figure frequently cited. Although these numbers have been exaggerated, the administrative problems have not.
2. The philosophy of New Federalism, with its stress on revenue sharing, block grants, decategorization, decentralization, and simplification, barely dented the traditional

system of categorical aid. Despite Presidential and Congressional initiatives, long-standing problems still persist, with categorical programs still accounting for nearly 80% of all federal aid dollars.

3. The problem of program numbers is not that of duplication and overlap (i.e., two or more grants authorizing aid for identical activities) but excessive specificity, with clusters of several grants for servicing, planning, training, and demonstration in the same narrow program area. This situation applies particularly to project grants. Often a single social problem has been attacked from many directions, with programs distinguished by the particular activities they support, the clientele group they serve, the manner in which services are delivered, or the places on which they focus.

Administrative Problems

4. State and local governments still raise many of the same complaints about the categorical aid system that they did a decade ago, chiefly excessive paperwork and administrative complexity. Yet certain shifts are notable, including mounting concerns about the uncertainty of funding, the relationship of categorical grants to block grants and

general revenue sharing, and the emergence of new conditions affecting general state-local policies and governmental processes. At the same time recipient jurisdictions continue to believe that these problems are federally centered and have little to do with their own internal management and decisionmaking capabilities.

5. Categorical grants are represented in four forms, including the formula-project and open-end reimbursement types along with the more widely recognized project and formula grants. Each possesses distinguishing characteristics and significant advantages and disadvantages. The large number of project grants, however, is the source of the greatest current concern, involving 296 programs and \$11.6 billion in 1975.
6. The federal executive branch has sought to coordinate, standardize, and simplify categorical application and administrative procedures through governmentwide management and other circulars, organizational reforms, and decentralization to the field. The overall record thus far, however, must be rated as merely poor-to-adequate because of executive-legislative conflicts, Congressional committee-agency links, departmental specialization, the relative weakness of critical managerial units within the executive office of the President, and the shifting nature of the problems constituting the grants management challenge.
7. Although efforts have been made to reduce red tape in grant application and award procedures over recent years, ironically during the same period new problems have arisen concerning the impact on grant recipients of a number of governmentwide regulations, involving national policies in environmental protection, equal employment opportunity, equal access to public services, and other fields. These regulations, which are administered by a complex network of federal departments, agencies, and Presidential units, too often have become points of confusion and conflict

between the levels of government and within the federal bureaucracy.

Fiscal Features

8. In absolute dollar terms categorical assistance expanded more than sixfold between 1960 and 1976, passing the \$45 billion mark in the latter year. In constant dollar terms the 1976 figure amounted to nearly two-and-a-half times its 1960 counterpart and as a percentage of state-local expenditures, the hike (in inflated dollars) came to 33% over this 16-year period.
9. The program emphasis of categorical assistance has shifted significantly over the past decade and a half, with health, educational, and environmental programs experiencing marked proportionate increases while transportation and agricultural outlays decreased proportionately. Aid is now offered in nearly every area of state and local activity, although in some fields the federal contribution is quite small.
10. A number of different, competing, and even contradictory philosophies and objectives have determined the allocation of aid among state and local governments, including the need for a specific service, fiscal capacity, the actual level of recipient expenditures, and such general criteria of political fairness as equality among the states or total population. The 1975 distributive pattern in the aggregate was a product of 146 separate formulas and thousands of project grant awards rather than any coherent national policy. Allocational patterns have shifted as formulas have been revised, new grants created, and the emphasis upon particular functional areas has altered. Over recent years differences in the total per capita grant allocations among the states have narrowed, although a slight but continuing tendency to favor the smaller and less urbanized states has occurred. Contrary to common belief federal aid has not consistently favored the states least able to finance their own public services. The reverse sometimes has been true, and only a small

number of grants explicitly recognize interstate differences in fiscal capacity.

Purposes and Cost-Sharing Arrangements

11. Analysis of categorical statutes, their formal conditions, and age suggests that project grants tend to be used somewhat more for stimulative program purposes, while formula-based grants embody more of a support approach. These tendencies are clouded, however, by the significant proportion (one-fourth to one-fifth) of the grants in both sectors that incorporate both goals, as well as by the proportion of the total that are essentially national programs relying on state and/or local governments for their administration because of practical political necessity or convenience.
12. Matching and other cost-sharing provisions in grant authorizations continue to reflect considerable diversity and little clear rationale for their selection. At the same time the overall number of categorical programs requiring no recipient matching has increased in recent years (by over 70 from 1967 to 1975), but this trend has not affected most of the big money formula-based and open-end grants. The overall fiscal effects of matching requirements would appear to be stimulative, but considerable debate arises over the evidence because of the different measures used, the varying program preferences of recipient governments, the difficult-to-determine effects of other related provisions like maintenance of effort, and the potential, even in this categorical sector, for fungibility over time—in program areas already involving large recipient outlays and in jurisdictions that perform a wide range of services and participate in many aid programs.

The Congressional Role

13. In a formal sense Congress is the chief architect of the categorical aid system, and many of the system's features are reflec-

tions of its subcommittee structure, the coalition character of its parties, the perennial constituency concerns and narrow program specialization of most of its individual members, and the continuing political and institutional constraints on its leadership and oversight role, despite recent reforms. Some current proposals for improved legislative processes are intended to reduce the resulting weaknesses. Yet Congress—and the categorical grant system—mirror the American political process as a whole, with its many points of access and power, its loosely structured political parties, its fluctuating sources of policy initiatives and leadership, its difficulty in sustaining a long-range planning effort, and its tendency to react to and act upon specific problems rather than move toward comprehensive national goals and explicit policy objectives.

ISSUES IN REFORM

Categorical grants still comprise the largest component in the federal aid system (accounting for about 76% of the assistance dollars in FY 1976), despite the advent of general revenue sharing and five block grants. Of all the forms of federal aid, moreover, they are the oldest and the most perennial source of criticism and controversy.

Their earlier growth provided the basic explanation for, and prompted the development of, the theories of cooperative federalism that emerged in scholarly writings over the past four decades. Yet categorical grants also have been a source of intergovernmental conflict since, at least, the first Wilson Administration, and these tensions have mounted steadily since the mid-1960s.

This section seeks to identify major issues underlying these conflicts and tensions and lay the groundwork for Commission recommendations.

Reducing the Number of Categoricals

In 1967 when ACIR last took a comprehensive look at the intergovernmental grant system, it found many stresses and strains in the system's operation.¹ The Commission concluded that a key cause of these problems was the excessive number of categorical grants. Accordingly it called for substantial reduction in that number.

Since then the number has increased, although at an uneven pace, until in FY 1975 442 programs for which state and local governments were eligible existed. This increase was despite the elimination during the past eight years of 56 earlier categoricals because of consolidations.

The impact of the continued proliferation of grants at the local level was indicated by the 1975 ACIR-ICMA survey of city and county executives. City executives reported that the average number of grants they received increased by over 100% in the five-year period from 1969 to 1974; county executives reported an increase of about 139%. Linking the excessive number of separate programs to management problems, these officials identified the complexity and volume of paperwork involved in the project grant process—what is usually called “red tape” — as the most common administrative sore spot in the federal categorical grant system. Furthermore they indicated that the most serious grant administration problems had become worse rather than better in the past five years. Overall they regarded project grants as more serious generators of difficulties in the administration of categorical aids than formula-based grants.

Together these findings suggest that the number of categorical grants continues to constitute a critical source of intergovernmental friction in the administration of categorical grant programs. But to say that too many categorical grants exist and to call for a decrease does not produce an automatic reduction. The modest success record in achieving mergers over the past decade is ample support for that conclusion. This study reveals one reason for the lack of success—the easy assumption that a large number of programs conceals a vast amount of overlapping and duplication and therefore the possibilities of merger. This assumption is simply not generally true. Other factors must be considered besides broad functional-relatedness, including the activities, purposes, recipient units, and clientele of the grants that fall within a subfunctional area.

Examine the transportation safety field, for example, with its nine categorical programs. One is a basic highway safety formula grant to the states, chiefly for support of ongoing state efforts. Three programs are formula grants that address very specific hazards: railroad crossings, roadside obstacles, and high locations. Project grants subject to a state allocational constraint exist: seat belt law incentives, reduced traffic fatality incentives, and special bridge replacements. And two are normal

project grants: railroad safety and motor vehicle diagnostic inspection demonstrations. Even a casual assessment of these programs suggests that the only possible clear case of identical activity is where one or more of the specialized grants (railroad safety excluded) might in some cases duplicate efforts aided under the basic highway safety grant. What emerges, therefore, are grants geared to highly specific purposes and activities with the project incentives and demonstration approaches dominating. The prime recipient in all cases are the states, a situation that does not usually prevail in most subfunctional grant areas.

The chief problem that emerges from this example is one of excessive specificity, not the aiding of identical or similar activities per se. The charge of categorical overlap and duplication, therefore, is rarely accurate in the sense of two or more programs funding identical efforts by the same class of recipients. It is accurate only if subfunctional areas alone are considered, with no heed paid to the wide range of purposes, projects, and recipients that are involved in categoricals within such areas.

The presence of an extraordinary number of highly specific grants in the same subfunctional areas therefore raises a prime problem for anyone concerned with rationalizing the categoricals: not simply whether the number of categoricals should be reduced, but rather how to combine the range of grants that are functionally related but cover very different activities (planning, training, direct servicing, demonstration, etc.), go to different jurisdictions, and reflect a blend of stimulative and supportive goals. The critical issue is whether some program fragmentation that arises from focusing on very narrow activities and very specific clientele groups, and from using very diverse potential servicing jurisdictions, can be curbed through consolidations without inhibiting the categoricals' capacity to target, to foster equity, and to differentiate among wide-ranging governmental units.

Making Categoricals Work Better

Regardless of what may be accomplished in the way of reducing the numbers of categoricals, this mainstay of the federal grant system clearly is going to remain with us. The issue then is: What needs to be done to make it work better? This question logically breaks down into four subquestions: the choice of the type of grant to be used in any particular situation, the legislative design of the grant, legisla-

tive oversight of program implementation, and implementation itself.)

CHOOSING THE GRANT TYPE

The conventional classification of categorical grants identifies just two types: project and formula-based categoricals. Yet the analysis of the 442 grants identified in this study suggests that four basic types exist: project, formula-project, formula apportioned, and open-end reimbursement grants.

There are 296 project grants for which potential recipients must submit specific applications for each proposed project, with actual awards made by the administering federal agencies on a competitive basis. Formula-project grants embrace 35 grants for which a specified formula is used to determine the amount available for each state area.

For 96 grants, funds are allocated by formula among recipients according to factors contained in legislation and regulations promulgated by the cognizant federal agency. The last category—open-end reimbursement grants—includes 15 programs characterized by a cost-sharing arrangement wherein the federal government is committed to reimbursing a specified proportion of state-local program costs, eliminating competition among recipients as well as the need for an allocational formula.

These distinctions among categorical types cannot be blurred or ignored because they help sort out the gradations of competition among grant recipients. This, in turn, suggests the range of allocational discretion that federal administrators acquire under different forms of categoricals. The distinctions also highlight two very different forms of targeting: the rifling approach under project grants and the more costly, but more comprehensive, approach of the open-end categoricals. Finally these differences as to form sometimes provide a hint as to what the national government's purposes are in enacting the program.

Some open-end grants suggest a scale of fiscal commitment and implicit concern with national, as opposed to state/local, benefits that the others rarely possess. Formula-apportioned categoricals may reflect attempts to achieve minimum service levels nationwide, to stimulate efforts initially but provide more program support through time, and to make a meaningful federal fiscal contribution. Both formula-apportioned and open-end grants, by fiscal necessity, focus nationwide on a very specific range of eligible recipients, typically the states.

Project and formula-project grants present more problems in discerning intent, because the reasons for not using a regular allocational formula range from the familiar research and demonstration project goals, to having limited available funds, to wanting to deal with nongovernmental bodies.

Each of the four categorical grant types has been developed for specific reasons and each has its advantages and disadvantages in certain situations. In order for Congress to make the most effective use of the different types, it needs to be aware of these differences in strengths and weaknesses. By the same token it needs to be very clear about the specific objectives of the programs for which it is considering enactment of a grant.

DESIGNING GRANT LEGISLATION

Once Congress determines which of the four types of grants to use, its grant construction task has only begun. It has to make some fundamental decisions about basic characteristics of the grant within each type. One decision is whether to include nonfederal matching and, if so, how much. Another vital decision concerns formula and formula-project grants: What factors shall be used in the allocation formula, and what shall be their arithmetic magnitudes?

Matching and Related Requirements

One of the criticisms of categoricals is that they skew the budget priorities of state and local recipients due to matching provisions. The skewing charge rests on the assumption that favorable cost-sharing arrangements induce recipient participation in the programs. It is backed up by references to studies showing that categoricals tend to have a stimulative effect on state-local outlays. Other factors enter in, however, to raise a question about the validity of this charge.

The increase in the number of categoricals requiring no recipient matching—by more than 70 grants between 1965 and 1975—is one such factor. The uncertain practical impact over time of maintenance-of-effort requirements for most recipients is another. The growing use of soft matches (inkind) is yet another. Certain evidence that a kind of fungibility emerges in larger jurisdictions that perform a wide range of services and that receive intergovernmental fiscal transfers from many grant sources also needs to be weighed. The finding, by some,

that new aid programs tend to have a far more stimulative effect than old ones is another factor. And above all, perhaps, the political clientele and program preferences of potential individual recipients must be considered, although they are difficult to gauge in an aggregated statistical analysis.

Regardless of what actual skewing effect the categorical grants system might have as a whole, it would be hard to prove by looking at individual grants that Congress did or did not intend stimulation in particular instances. No discernible rational pattern is evident in the manner in which Congress employs matching requirements. One necessity, therefore, for the improvement of the design of categorical grants is the development by Congress of clear policies on what it intends to do in the way of stimulation or nonstimulation of recipient expenditures, and then use of the appropriate matching in order to try to achieve that goal—high, low, or no matching.

Congressional use of maintenance-of-effort requirements raises a similar question. Presumably Congress imposes a maintenance-of-effort provision to attempt to assure that local recipients will use the money to expand their expenditures for a particular activity rather than to substitute it for some other activity. Although this seems to be the goal, little evidence is available to ascertain whether this is actually what happens. Certainly widespread indications exist that enforcement of maintenance-of-effort requirements is very minimal. Hence if Congress is to use these requirements realistically, it needs thorough studies of the actual effect of existing maintenance-of-effort requirements.

Factors and Allocation Formulas

Analysis of the allocational formulas in the 146 formula-based categoricals in 1975 suggests that a number of different and competing principles have been used to determine the flow of categorical dollars and that no clear or widely accepted allocational policy has been developed or used either in Congress or the executive branch. Most commonly the existing formulas rely, at least in part, on some measures of recipient need for the services aided. Yet often these measures are only rough approximations of actual servicing requirements. Thus heavy reliance is made on a jurisdiction's total population or categories thereof.

Allocations in some fiscally important programs are determined by eligible recipient outlays, which

tend to benefit high-income governments. On the other hand some grants rely on recipient per capita income as a measure of recipient fiscal capacity, presumably benefiting poorer jurisdictions.

An additional complicating matter is that most grants rely on two or more allocational factors, often reflecting different allocation philosophies. This situation produces an overall statistical result that shows recipient per capita level of federal grant receipts now being positively (but weakly) related to income, nonurbanization, and smaller population factors. These rough and somewhat contradictory relationships underscore the diverse effect of allocational (as well as matching) requirements and again show the absence of a consistent set of distributional principles.

The real issues in the use of allocation factors are whether a coherent allocation philosophy and better indices for meeting program objectives can be developed, and whether—in the face of all the pressures that surround these essentially political decisions—Congress can take deliberate action to ensure that the improved indices are employed effectively.

CONGRESSIONAL OVERSIGHT: CAN IT BE IMPROVED?

Although Congress chooses the type of grant to use and determines how it shall be designed, it has the opportunity and responsibility to check on its own handiwork through oversight. Congress performs this function through a variety of activities, not the least of which are hearings for the extension of program authorizations and annual appropriations. To a great extent, as the result of clashes between Congress and the executive branch centering around the Vietnam War and the Watergate affair, Congress in recent years has made substantial efforts to upgrade its oversight activities. These efforts include the strengthening of support services supplied through the General Accounting Office, the Congressional Research Service, the Office of Technology Assessment, and the Congressional Budget Office. The *Budget and Impoundment Control Act of 1974* has been particularly important in strengthening Congress' control over fiscal affairs.

With all this recent upgrading of the legislative review capability, however, it is generally believed that Congress does an unsatisfactory job of oversight. The primary cause is a lack of incentive; for a variety of reasons—institutional, political and per-

sonal—Congress finds that enacting new legislation or revising existing legislation holds more attraction than the tasks involved in monitoring the implementation of existing legislation. The constantly increasing pressure of the legislative workload fits conveniently into most Congressmen's inclination to spend time on legislative and constituent matters, rather than on oversight activities. Other reasons for the lower priority given to oversight duties exist, including the well known "iron-triangle" linkages between Congressmen, interest groups, and program administrators.

Categorical grant programs are in a somewhat separate class from other federal programs with regard to oversight. For example state and local government groups, who at times disagree with decisions made by federal program administrators, sometimes exert pressures on Congressmen that tend to break up or at least weaken the "iron-triangle" relationship. Also in 1968 Congress took specific action to strengthen its monitoring of at least one part of the various grant programs. In the *Intergovernmental Cooperation Act of 1968*, it provided for periodic Congressional review of all grant programs that did not have termination dates specified in their legislation. Unfortunately, however, this legislation carried no teeth with it; as a consequence, Congressional review of even this limited number of programs has been ineffective.

The issue then is: What kinds of incentive can be provided to increase Congress' interest in the implementation of grant programs? What mechanisms can be developed? Can Congressional processes be instituted that assure a probing, periodic reassessment of federal grants in the functional areas, without a basic shift in thinking about the role of categoricals and Congress in our system?

SOME STEPS FOR BETTER ADMINISTRATION

In another volume in this series, the problems of federal grant administration in general, and of categorical grants in particular, were explored in depth, and proposals were made for dealing with those problems.² Further research, the results of which are presented in this volume, has revealed other areas of possible upgrading of grant administration. One is the uncertainty in the flow of grant funds.

Even with a growing portion of total federal aid moneys coming through the channels of general revenue sharing and block grants, increasing complaints

have arisen in recent years about the difficulties at the state and local levels created by these uncertainties. For example, although in a 1964 survey, 39% of state administrators polled said that federal aid seemed uncertain and produced revenue estimating difficulties, in 1968 the proportion rose to 68%, and in 1974 to 76%. Undoubtedly the massive increase in aid and numbers of program authorizations contributed to the actual and perceived uncertainty. The uncertainty stems from not only the unpredictability of the Congressional appropriations and authorizations process, but also the implementation procedures that are set forth in legislation and in administrative regulations and practices.

To bring more predictability to the flow of federal grant funds, state and local officials are pressing for more multiyear funding arrangements. The issue is whether such arrangements can be developed without serious damage to Congress' new budget control procedures.

A second and more recent problem causing administrative headaches at the receiving end of grants is that of the growing number of generally applicable administrative requirements. Examples are environmental impact statements, the *Davis-Bacon Act*, relocation assistance, and equal employment requirements. These stipulations apply not only to categorical grants but also to block grants, and raise questions of state and local officials as to whether or not they are nullifying the increased flexibility that presumably is provided by these noncategorical aid approaches. In view of the fact that Congress and the executive branch already seek to achieve broad cross-cutting national purposes through 37 conditions, to what extent and for what purposes should grant conditions of this type be imposed in the future? When should indirect grant controls be used and when should direct supercessive federal laws be used? Accepting the fact that such generally applicable conditions will continue, although perhaps in some modified form, what can be done administratively to make them more manageable and less of a burden on state and local administrators?

RECOMMENDATIONS

Recommendation 1

Choosing the Type of Categorical Grant

The Commission finds that categorical grants may be grouped into four types—project, formula, formula-

project, and open-end reimbursement grants. Each has different advantages and disadvantages and is best suited for different situations and purposes. Thus in choosing the form of categorical grant instrument to be used to accomplish particular objectives, Congress should consider systematically the advantages and disadvantages accruing to the various interested parties—grant recipients, interest groups, and administering agencies.

The Commission concludes, however, that federal categorical assistance still is excessively fragmented. This condition continues to generate program, management, and organizational difficulties for grantor agencies and recipient jurisdictions. It severely complicates the task of achieving effective legislative oversight at all levels and hinders efforts to strengthen politically accountable executive branch officials.

The Commission finds that the continuing growth in the number of small, narrowly drawn project grants is primarily responsible for the proliferation of categorical grants, and that avoiding the creation of additional project grants of this type when possible offers a significant means of controlling that proliferation. Too often project grants have been used almost automatically, without adequate consideration of other types. Of course project grants have positive features that make them uniquely suitable in certain circumstances, such as (a) when funds are too scarce to serve a broad constituency and a more precise targeting of funds to the jurisdictions with the greatest program needs is desired, (b) when the appropriate recipients are not easily identifiable until application is made, (c) when the distribution of funds cannot be systematized appropriately ahead of time or measured accurately by objective factors, and (d) when national research or demonstration needs take precedence over recipient needs.

On the other hand project grants have other features that create friction in intergovernmental relations. For example they generate excessive paperwork, foster grantsmanship and inequities among competing eligible recipients, and introduce uncertainty about continued funding (in addition to the level of funding). These problems are added reasons for controlling the multiplication of project grants.

Formula-based grants, in contrast, distribute funds automatically according to more objective measures of program need and/or fiscal capacity as specified by Congress; involve a narrower, less diverse range of recipients; and incur substantially

fewer administrative complications than the project grant application and review process.

The Commission believes, therefore, that when undertaking new categorical grant programs and consolidating existing ones, Congress should more thoroughly assess opportunities to use the formula-based grant instead of the project grant. Even when it is not possible or desirable to use a formula for complete distribution of funds, a modified formula or open-end reimbursement approach may be used to help allocate funds more efficiently than is possible by using a project-by-project approach.

The Commission recommends that when considering new or reenacting old categorical grant programs, Congress and the President consciously evaluate the advantages and disadvantages of the four alternative types of categorical grants—project, formula, formula-project, and cost reimbursement — as well as the relative advantages and disadvantages of block grants, and select in each case the type that best meets the intended national purposes in light of the need to reduce the total number of programs and to facilitate simpler, fairer, and more efficient administration of grant programs.

The Commission recommends, further, that in those cases where Congress and the President determine that a categorical grant is to be preferred, they use the following criteria in choosing among the four types:

- a. Formula grants should be used when a federal program has nationwide applicability and when objective factors relevant to program needs and recipient jurisdictions' characteristics can be quantified appropriately and interrelated in a formula for the allocation of funds among recipients.**
- b. Project grants should be used when funds are to be targeted precisely to a limited number of recipients having unusually great needs, when national objectives call for selective research and demonstration projects, or when appropriate formulas and eligibility requirements cannot be devised for the systematic distribution of program funds.**
- c. Mixed formula-project grants should be used only when conditions for project grants exist but state allocations are needed to curb administrative discretion in the awards process.**

d. Cost reimbursement grants should be used when the federal government wishes to underwrite a specified proportion of legitimate state or local government program costs, whatever the total amount may be, while permitting recipient governments discretion in establishing service levels.

This report has identified and examined four types of categorical grant mechanisms for distributing federal funds to state and local governments: formula grants, project grants, project grants constrained by a formula, and open-end cost reimbursement grants. Each has different advantages and disadvantages from the perspective of Congress, the executive branch, state and local governments, and interest groups. In addition to requirements for fund distribution, each categorical program, regardless of which type it falls under, embodies other requirements that condition its operations, including matching, maintenance of effort, recipient eligibility, administrative standards, planning, and reporting. In enacting categorical grant legislation, Congress clearly needs to give particular attention to the significance of each grant design feature in light of its immediate legislative objectives.

The Commission believes that attention to the following types of questions may be helpful in designing appropriate grant instruments:

- Who is the provider (existing or intended) of the service or activity to be aided? Is it exclusively a governmental function, or are private organizations or quasi-governmental organizations involved? Are similar types of organizations or governments involved throughout the 50 states?
- Is the need for the service or activity to be aided widespread or is it limited to just a few states or even a few communities within each state? What are the characteristics, if any, that identify the jurisdictions with program need?
- Is the need for aid continuing or only episodic? Is certainty of funding over several years important to the recipient?
- Will different recipients need to be assisted at different times?

- Are satisfactory statistical indicators of need available?
- Does Congress wish to aid all needy jurisdictions or only those most in need? If the former, is enough money available?
- Are particular types or levels of management capacity necessary for the conduct of the aided services or activity? Do certain types of potential recipients (counties, municipalities, regional bodies, private organizations) uniformly possess such capacity? If not, can they acquire it?
- Is the intent to simply support existing state and local efforts or to increase the total amount of state-local spending for the aided services or activities?
- Does the nature of the problem require similar programs in all jurisdictions, or are different programs or mixes of activities necessary in different areas?
- Should the recipients be given wide discretion to determine the exact nature of the aided activities?
- Is it essential that a minimum level of service be provided in all jurisdictions?
- Is it the type of program in which the states should be reimbursed for a set percentage of costs regardless of the level of expenditure they choose?

Answers to these questions cannot be directly translated into guidelines for the choice of grant types, but they can help Congress to see the advantages and disadvantages of using the four categorical grants in different circumstances.

Formula grants are an efficient means of disbursing large amounts of money to recipients on the basis of some objective measures of program need and, if desired, of fiscal capacity. They help to provide certainty of fund flow for recipients and minimize the danger of having funding decisions depend on the judgment of a federal administrator. By distributing funds on an objective basis, they give no advantage to the practiced and resourceful grantsman. They may or may not require substantial

paperwork, depending on the scope and detail of recordkeeping and reporting requirements, but usually are relatively free of the paperwork associated with the application and review process of project grants.

In the absence of sufficient funding, however, the use of a formula may spread money too thinly, reducing its effectiveness. Targeting can be difficult to achieve with formula grants. Such grants also may not be feasible, especially in the case of federal-local programs, because adequate need data are not available for the intended jurisdictions. In other cases effective use of program funds may require inclusion of a mix of recipient types, thus making a single formula impractical.

Project grants are well suited to a number of situations. First, they are the most appropriate type when Congress intends to fund the demonstration of a new program or activity or to support research or experimentation in a new activity. Second, they should be used when a program is not needed by all members of a specified recipient class. In such instances a formula program cannot discriminate between those jurisdictions needing and those not needing the program. A competitive project application process is the most manageable means of making this distinction and allowing the targeting of critical levels of funding. Third, project grants are a useful strategy for the funding of large capital projects, where only onetime funding is involved or costs only become known as the project progresses through the various stages of development. Fourth, a competitive project grant is the best grant type for directing funds to those recipients with the most management or jurisdictional capacity to conduct the program. Not all recipients of the same class may be equally capable of conducting the program, or different types of recipients may be responsible for the aided activities in different parts of the country, making the use of a general formula difficult. Finally, the project grant might be the only feasible alternative where sufficient formula data are not available.

Project grants also have serious shortcomings. Because they involve an application and review process, they are the greatest generators of paperwork, with high administrative costs for both applicants and grantor agencies. Eligible applicants have the greatest difficulty in ascertaining the amount of funds that are available for various projects. Except as circumscribed by statute, project grants vest discretionary authority in a federal administrator, opening up the possibility of decisions made on bases

other than merit. They also tend to favor applicants who have the resources and knowledge to play the grantsmanship game.

Project grants with formulas for the initial allocation of funds on an area basis (usually among states) are the most appropriate type of categorical grant when circumstances call for a meld of the two basic forms. Congressional objectives (e.g., experimentation or demonstration) might dictate a project approach, but Congress might suspect a federal agency's objectivity in making grant awards. Under those circumstances placing limits on the amount of grants distributed to any one state would be appropriate. Those limits might be a minimum or a maximum.

Open-end reimbursement grants are suitable when Congress wishes to guarantee federal funding of a specified percentage of state program costs that cannot be known in advance. Thus when the desired volume of services is likely to be affected by economic fluctuations, an allocation formula cannot be used; the amount necessary to meet the federal commitment simply cannot be estimated with a tolerable degree of accuracy. Open-end programs also are appropriate when Congress wishes to provide substantial support in meeting essential needs but also wishes state/local recipients to share in decisions on the precise conditions of beneficiary eligibility and the scope of benefits. Recipients' sharing in such decisions helps to "close the end" on costs by providing the incentive for prudence in setting the limits on program eligibility and scope of benefits, and the motivation for efficient administration.

Open-end reimbursement programs have several disadvantages. Although they can provide strong incentives for states to meet minimum standards, they also tend to give the most money to those states that can afford to spend the most. Thus in the absence of sufficiently variable federal reimbursement percentages, the high-income states may receive amounts of money disproportionate to program need. In the case of programs with benefits to individuals, these problems can be ameliorated somewhat by modifying the open-end with a limit on payments per person.

Another disadvantage of open-end reimbursement grants is that if the federal reimbursement percentage is too high, lowering state costs too much, states may be tempted to raid the federal treasury, as happened in the case of the original social services program. This danger led the Commission to include a per capita ceiling on its recommended reimburse-

ment program for public health services in 1977.³

Because of these difficulties and the potentially large amounts of money involved, open-end reimbursement programs have tended to generate copious regulations and guidelines. This problem may be intensified when the program involves controversial decisions involving rights of persons to services.

The Commission believes that in choosing among categorical grant types on the basis of these relative strengths and weaknesses, Congress must be especially sensitive to the single greatest source of intergovernmental friction in the existing categorical grant system—the continuing proliferation of narrow-purpose grants. Despite the enactment during the past decade of two block grants that consolidated some 24 categoricals, and the merger of a handful of others, the number of grants for which state and local governments are eligible has grown to over 440. The problems associated with the continuing proliferation of categorical grants, therefore, are potentially more serious for grant participants now than they were in 1967. These problems include difficulties relating to:

- identifying available and funded programs;
- interlevel coordination of auditing systems;
- inter- and intra-departmental program coordination;
- federal headquarters-field relations;
- Congressional and recipient oversight; and
- recipient and popular attitudes about the system as a whole.

This growth in number of categoricals can be found mainly among project grants. Their seeming suitability to many situations makes them the most frequently used grant type (296 of 442 in 1975). They are a conveniently available alternative to the more demanding, yet more equitable, requirements of a formula-based grant, which requires a large enough appropriation to satisfy program needs throughout the country and the development of measures of need to assure funds distribution, as much as possible, on an objective basis. The greater convenience of using project grants makes them more attractive to interest groups anxious to obtain a specific Congressional commitment to their programs. The smaller funding acceptable under the project grant thus lowers Congressional resistance to the initiation of new programs that might not pass closer scrutiny because of the larger sums necessary to fund a formula grant program.

That project grants cause more problems than formula grants for state and local recipients was borne out in the 1975-76 survey of city and county chief executives conducted by ACIR and the International City Management Association.⁴ The officials were given a list of 25 problems commonly encountered in categorical grant programs. They were asked to check the five most serious according to their opinions. City officials placed at the top of their list: "The complexity and volume of paperwork in project grant process," and "Time involved in project grant process." County officials placed the same two problems first and third, respectively. They judged the second most serious to be "Getting clear and prompt policy interpretations from federal grant administrators."

The officials also were asked to indicate whether the problems pertained more to project or formula grants. (This question did not apply to the problems of paperwork volume and time involved in processing, because those were associated solely with project grants. The three top problems listed were: "getting clear and prompt policy interpretations from federal administrators," "the complexity of reporting, accounting, auditing requirements," and "inadequate provision for consultation with state-local officials in developing regulations and guidelines." Well over half of both city and county officials stated that the problems were equally applicable to both project and formula grants. Of the remainder, however, many more found project grants to be the greater problem than formula grants, by a ratio of as much as 6-to-1 in the case of city officials' rating of "the complexity of reporting, accounting, auditing requirements."

In the Commission's judgment, therefore, Congress needs to exercise great care in authorizing new project grant programs if it is going to make progress in limiting continued excessive categorization. Similarly it must concentrate its consolidation efforts on project grants already in existence. Distributing funds by formula rather than administrative decisions will help to reduce the vexing problems of grant administration associated with grant proliferation, and will have the added advantage of minimizing reliance on the subjective judgments of federal administrators in grant awards. By deemphasizing competition among grant seekers, it also will deemphasize the skills of grantsmanship in obtaining federal funds to the benefit of deserving recipients who have neither the resources nor the inclination to develop those skills.

Two realistic alternatives to the project grant exist: the block grant and the formula-based categorical. If properly designed, both have the advantages of a more objective mechanism of fund distribution and fewer administrative conditions and procedures. In the Commission's judgment, based on close study of the records of four of the five existing block grants reported in depth in other volumes of this series, a well constructed, well implemented block grant has additional advantages over the formula-based categorical from the standpoint of a strengthened federal system. It provides greater decentralization of decisionmaking to the state and local levels, enabling easier adaptability of federally aided services to varying needs at the point of service delivery. This characteristic allows greater freedom from federal legislative or regulatory prescription of administrative conditions and procedures and, consequently, less red tape and paperwork.

If the block grant instrument is chosen, funds can be allocated through the state (as in the criminal justice and health block grants), through local governments (as preponderantly in the community development block grant), or through both (as in the manpower block grant). If Congress chose the formula-based categorical, on the other hand, past experience would suggest that the program would be limited to a federal-state relationship because of the complicated task involved in federal agencies dealing directly with thousands of local jurisdictions and the lack of small-area data on which to base a federal-local formula. Recent developments, however, raise questions as to whether the formula-based categorical needs to be limited to a federal-state fund flow. First, local data have been developed for general revenue sharing purposes. Second, some local recipients have concluded from their experience with block grants that a federal-local formula-based categorical would involve relatively little more administrative complexity than a direct federal-local block grant.

Recommendation 2

Grant Consolidation Goal and Criteria

Strongly implied in the foregoing analysis is the need for action to reduce the excessive fragmentation that continues to cause severe administrative problems and to trouble intergovernmental relations in the federal categorical assistance system. Hence, **the Commission reaffirms its 1967 recommendation**

that Congress and the President adopt as a general goal the reduction in the number of categorical programs and urges that the following factors be used in attempting to identify the most likely candidates for consolidation: programs to be merged should be, or be capable of being made, (a) closely related in terms of the functional area covered; (b) similar or identical with regard to their program objectives; and (c) linked to the same type(s) of recipient governmental jurisdictions.

The Commission recognizes that these criteria are not necessarily mutually consistent and that applying them to the broad range of more than 440 categorical grants will not be easy, given the conflicts that can arise due to competition among Congressional committees, interdepartmental as well as intradepartmental differences, and interest group rivalries. The Commission nevertheless recommends that a major effort to rationalize the categorical sector be mounted and notes that practical clues as to how to proceed are currently present, including: (1) the degree to which individual programs already are merged administratively and for budget presentation purposes at the federal level, (2) the degree to which subfunctions have been further subdivided into narrower clientele and support function categories, (3) the size of the dollar amount appropriated for individual grant programs, (4) the age of the programs, and (5) whether a grant has been funded.

In its 1967 *Fiscal Balance* report, the Commission called for a significant reduction in the number of categorical grants. As noted in Recommendation 1, however, little on the categorical front has changed since that time, despite the consolidation of some 56 categoricals through the enactment of two block grants and three mergers. Various efforts have been mounted to provide better information on and to standardize, simplify, and streamline the administration of categoricals, and these have been welcomed by recipient jurisdictions.⁵ Yet the sheer number of grants involved—over 440 for state and local governments and another 100 for higher education—make this a near “no contest” situation.

The Commission is fully cognizant of the practical, political, and procedural hurdles that must be surmounted in any effort to rationalize the categorical assistance sector. The actual drafting of consolidated proposals is no easy assignment. Quick and easy attempts have been made in recent years, and the result was that most failed even to reach the Congressional hearing stage. Mergers, therefore,

must simultaneously reflect a healthy awareness of the programs involved, of their supporting interests, and of the fiscal implications of consolidation. This recommendation sets forth three general criteria that are fundamental to the choice of candidates for realistic consolidation proposals.

With regard to the first criterion, programs to be merged should fall within the same functional area. Yet what is a functional area? Is it one of the broad functional groupings used in the Secretary of the Treasury's annual report on grant outlays or one of the subfunctions used by the Office of Management and Budget (OMB) in its budget presentations and analyses? It could be either one, although the latter is more helpful because it is less aggregative. Yet the scope of these OMB functional designations is still quite broad and encompasses many types of grants geared to achieving many different purposes. Use of OMB's functional classification of budget accounts, on the other hand, can be more helpful, given its narrower focus. Some accounts, however, subsume a range of programs while others cover only a few, and interdepartmental functional links are not clearly highlighted in this system.

The second criterion advanced in this recommendation is a vital followup to the first, because it calls for an identification of the program objectives of grants in the same or closely related functional areas. The purpose of this criterion is to sort out like or similar program goals and efforts. As with the first criterion, application is not easy, because it involves at least a two- or three-factor mode of analysis. One part of the effort involves a horizontal survey of the grants to discover those that fund identical or similar activities and where their stipulated objectives are similar or the same. Such an exercise will reveal several grants that support like or even the same type of governmental activities but have differing purposes, reflecting efforts to reach different governmental jurisdictions, clientele groups, or geographic areas. On the other hand this type of analysis also can highlight similar basic program goals among a cluster of grants but differing activities—from direct service support or stimulation, to research and demonstration, to planning for the function, to training people to render it. Yet another dimension of applying this criterion is a vertical movement—from highly specific program categories to a broader functional terrain. This change initially involves the delicate job of attempting to determine the feasibility of merging clusters of functionally related categoricals within a subfunctional area, such as education

for the handicapped or programs for older Americans. These categoricals frequently differ with regard to specific program focus, specific clientele support versus demonstration programs, or personnel training versus a servicing emphasis. The higher the level of attempted vertical functional integration, the greater the feasibility problems.

With respect to the interrelatedness of program objectives, a number of grant features must be examined. One is the allocational factor. Weighing this factor involves far more than merely sorting out formula-based, project, and formula-project grants within the alternative packaging possibilities that the previous exercise suggests. Among those within the formula fold may exist a federal-state, federal-state with a local pass through, and occasionally even a federal-local program. This situation raises the jurisdictional issue, which frequently has interdepartmental as well as interlevel ramifications. Many difficulties relating to varying program purposes, authorized activities, and levels of functional specificity also are involved in treating these formula-based categoricals. When the project sector is added, research, demonstration, special targeting, and quasi-private sector issues also are raised. Does one move horizontally to merge similar projects, does one turn to the formula grants to which many project grants are attached, or does one move to a higher level of program integration, merging subordinate formula and project grants that are functionally or subfunctionally related? These types of strategy questions arise when applying this second criterion.

A related grant feature bearing on the similarity of program objectives is the matching provision. The matching ratio reflects several considerations, including the degree to which Congress believes that cost-sharing provisions are an incentive to recipients' interest in promoting efficient administration, and Congress' views on the relative amount of national and state-local interest involved in the added program. Where the matching ratios of several programs are widely disparate, consolidation may be possible only by averaging out these ratios for the merged grant.

Another grant feature helping to define program objectives is the nature of the clientele groups. This factor raises a number of definitional questions, many of which were covered in the earlier analyses. What are comparable clientele groups? Are they, for example, those covered by state programs for educationally deprived children, by the programs for migratory children, by the grants for neglected

and delinquent youngsters? Some would say "yes" to this question and others would say these are discrete clientele groups that are not comparable or identical in any real sense. Yet these groups all fall under the basic subfunction of aid to the educationally deprived. Quite clearly when this clientele issue is raised, difficult questions, regarding the assistance capacity of state and local efforts, the servicing role of nonprofit organizations vis-a-vis various sectors of the population, and the need for targeting, must be raised and difficult judgments made. Yet by concentrating on this factor alone, some of the most pertinent feasibility questions are raised immediately, serving as prior warning of some specific types of opposition that a major merger is likely to encounter. The warning however, should not signal a call to retreat but simply to be on guard.

The third criterion—focusing on functionally related programs with identical recipients—involves many considerations raised in the purposes, activities, and allocational analyses. However it provides a good means of quickly identifying the degree to which intergovernmental conflict between and among categorical recipients is likely to occur if a consolidation is proposed. The criterion generally raises the pass-through and bypass issues in a major merger proposal, because this usually involves creation of a federal-state grant. Above all, perhaps, it requires on the analysts' part a keen awareness of the actual servicing role of the range of governmental units within our 50 state-local servicing systems.

Grant consolidation may be more difficult when the grant cluster involved includes separate grants to different types of recipients, but this is not always the case. For instance five grants suggested for consideration in agricultural extension services and research and nine grants under transportation safety are all grants to states (see *Recommendation 3*). In these cases consolidation into single formula grants to states should not be difficult.

In many other cases, however, the clusters of grants suggested for possible consolidation may include grants that currently go to different types of recipients, and consolidation into single formula grants under this condition presents real dilemmas. Data problems can make use of a formula difficult because more than one type of recipient is involved. Thus local governmental and private nonprofit recipients may fear losing funds in the process of grant consolidation, because higher level units, typically the states, emerge as the natural prime recipients. This problem is especially apparent when many

of the grants involved are project grants, as in the vocational rehabilitation and state education assistance clusters.

Nonetheless means exist to insure that current recipients will not lose out entirely in the competition for grant funds. One approach is to require states under a consolidation to pass through a minimum percentage of grant funds to local recipients. For example a consolidated formula grant to states for education assistance might include a number of programs that are now administered on a direct federal-local basis. State recipient agencies might be required to pass through some minimum percentage of the funds to local recipients, guaranteeing their continued administration of federally aided programs. Or in the case of a consolidated formula grant to states for comprehensive transportation, the state might be required to pass through funds to substate regional and local governments with transportation responsibilities. A variation of this approach is to require a division of the grant funds on the basis of the overall state-local split of financial responsibilities within the aided functional area. This approach would give recognition to the wide servicing variations that frequently exist in the 50 state-local systems in numerous program areas.

Although these types of requirements may mollify some opponents of such mergers, they also compromise one of the goals of consolidation. Grant consolidations have, among other things, the potential for allowing more unfettered recipient determination of the priorities for use of federal money, and allow more comprehensive, less categorical approaches to solving problems. Any mandated pass-through or sharing requirement likely would protect current patterns of spending, thus, defeating these goals in part. Even in these cases, however, consolidation is likely, on balance, to enhance recipient discretion to some degree. In addition it can provide other benefits of merger, such as reducing recipients' paperwork and, in the case of a pass-through requirement, easing federal administration by making it possible to deal with 50 states rather than thousands of local jurisdictions.

This brief assessment of the practical problems in applying these three general criteria is not meant to convey a sense of pessimism about the assignment. All that is intended is to outline an analytical process that provides conflicting clues about what might be merged and to generate a heightened awareness of program and political reality as this much needed effort is mounted.

To launch this campaign and to allay any sense of futility, the Commission notes that in approaching the complex task of applying the criteria to the current grant system, certain commonsense clues do exist about where to begin. Various smaller categoricals are lumped together for budget presentation and justification purposes, providing one bit of evidence of feasible mergers. The easy identification of clusters of highly specific categoricals within sub-subfunctional areas—such as education of the handicapped (8), vocational education (9), juvenile delinquency (4), forest lands management (7), and highway beautification (3)—provides another source of potential consolidations. The size of a grant's appropriation sometimes provides a clue for some modest mergers and certainly the failure of Congressional appropriations committees to fund grant programs is a good guide to possible mergers or even eliminations. In FY 1975 over 150 authorized categoricals failed to receive appropriations. If this pattern continues over a two- or three-year period, a move for mergers or repeals would be in order.

Another clue is the age of the grant. Congress often initiates a grant in order to stimulate a new state or local activity or to expand an existing one. Once established the new or expanded activity tends to continue as an accepted state or local program, rendering federal aid as supportive rather than stimulative. Thus older programs are presumed to be supportive, an important consideration when seeking similar characteristics in consolidation candidates.

In surveying the field for possible consolidations, Congress should not confine its attention only to those grants that currently possess common features of the type identified in the suggested criteria. If this limitation occurs successful consolidations will be rare and possibly nonexistent. After all the usual reason for narrow categorical grant proliferation is that each is somewhat different from the others, however small that difference may be. The search for consolidation candidates, therefore, needs to be far ranging, looking at categoricals that are not only alike in many of their traits, but also are capable of being made alike by legislative action without damage to the underlying objectives of the individual grants. This change could mean, for example, modifying allocation formulas or matching ratios of one or more of the merger candidates. Such modifications are the fundamental decisions involved in consolidations and may be expected in many cases to create protests from interests who believe they are threatened by the changes. Yet the resultant

trimming and simplification of the categorical inventory can be ample recompense.

In recommending criteria for and clues about decategorization, the Commission does not ignore the appropriate purposes of the different types of categorical grants within the overall federal assistance package, as *Recommendation 1* clearly indicates. Moreover the Commission does not intend to imply that all consolidations will result necessarily in block grants. As emphasized in the six volumes of this series dealing with block grants, this mechanism possesses certain traits that are not appropriate in all program areas or for achieving certain national purposes. Hence a consolidation may produce only a slightly larger categorical, a major categorical, a target grant, or a major or minor block grant. The method of consolidation chosen depends on the scope of the program area covered, the size of the funding, the degree of federal administrative discretion in the allocation process, the assertiveness of program conditions, and the nature of administrative requirements.

Recommendation 3

Possible Candidates for Consolidation

On the basis of a preliminary review of the 442 categorical grants that were operational in FY 1975 and using the criteria suggested in *Recommendation 2* (but with primary emphasis on the functional interrelationship), the Commission concludes that the merger of at least 170 programs into no more than 24 grant consolidations appears to be both feasible and desirable. Hence, **the Commission recommends that as a first priority, Congress and the administration give serious consideration to achieving grant consolidation in the following subfunctional areas:**

- **Civil Defense System Administration and Operation (involves 3 categoricals),**
- **Water Resources Planning and Research (involves 2 categoricals),**
- **Water Resources Research Projects (involves 2 categoricals),**
- **Forest Lands Management (involves 7 categoricals),**
- **Fish and Wildlife Protection and Management (involves 3 categoricals),**
- **Agricultural Extension Services and Research (involves 5 categoricals),**
- **Highway Beautification (involves 3 categoricals)**

- als),
- **Transportation Safety (involves 9 categoricals),**
- **Comprehensive Regional Transportation (involves 10 categoricals),**
- **Comprehensive State Transportation (involves 13 categoricals),**
- **Pollution Prevention and Control (involves 9 categoricals),**
- **Public Library Aid (involves 3 categoricals),**
- **Programs for Older Americans (involves 4 categoricals),**
- **Child Welfare Services and Facilities (involves 4 categoricals),**
- **Fire Prevention and Protection (involves 2 categoricals),**
- **Omnibus Education Assistance (involves 34 categoricals):**
 - (Education of the Handicapped—8 categoricals),
 - (Educationally Deprived Children—4 categoricals),
 - (Adult Education—3 categoricals),
 - (Vocational Education—9 categoricals),
 - (National Reading Improvement—2 categoricals),
 - (Strengthening State and Local Education Agencies—3 categoricals),
 - (Strengthening Instruction in Science, Math, Language, Etc.,—2 categoricals),
 - (Others—3 categoricals).
- **Vocational Rehabilitation (involves 7 categoricals),**
- **Juvenile Delinquency (involves 4 categoricals),**
- **Domestic Volunteer Services (involves 3 categoricals),**
- **Child Nutrition and School Meals (involves 8 categoricals),**
- **Law Enforcement (involves 3 categoricals),**
- **Preventive and Protective Health (involves 22 categoricals),**
- **Food Inspection (involves 2 categoricals), and**
- **Regional Health Systems (involves 8 categoricals).**

Using the criteria for consolidation proposed in Recommendation 2, but cognizant of all the merger difficulties discussed under that recommendation, ACIR staff conducted a general review of the 442 categorical grant programs funded in FY 1975. The resulting proposals for merger are listed above.

One of the problems in this approach to grant consolidation is that if the criteria are adhered to

rigidly, very broad groups of grants suitable for consolidation are not easily found. Few grants, even within one functional area, are identical. Often, separate grant authorizations exist for construction, planning, operational assistance, and research in one program area. In other cases separate authorizations for private recipients may be clustered around one general grant to governments. In still other instances separate authorizations may be targeted at special clientele groups, such as minorities or special age groups. In short the search for commonalities may lead to a discovery of the reasons for the current fragmented grant system, and underscores the significant finding that the problem with the current 442 grants is not so much one of duplication and overlap as it is one of fragmentation—special grants for special situations.

In reviewing the list of categorical grants, therefore, ACIR staff combined a strict application of the criteria with a zero-based approach. The latter involved looking at Congress's apparent intent for the desirable federal role in the intergovernmental financing of broad clusters of public services. The resulting combined approach placed the major emphasis on function. Lesser attention was paid to political feasibility, although this factor was not ignored as witnessed by the number of modest proposed mergers. Matching and allocation formulas were not treated as barriers to consolidation. In many cases grants for different processes or activities (planning, training, operational support) were combined. Related research and demonstration grants and training grants generally were left unconsolidated because of their unique project nature and national significance. Grants for which local governments and/or private agencies are eligible directly often were combined with basic state formula grants. Local governments and private agencies still could be eligible for funds, but the money would be passed through the states, either according to a legislatively stipulated formula or a state-administered project application and approval process. Some grants would still flow directly to local units, particularly in the education and community development fields.

Critics of such an approach to grant consolidation allege that it is too simplistic. First, they charge, it fails to take adequate account of the many unique problems that arise in the day-to-day administration of programs and that cannot be surmised by mere reference to general function, statutory objectives, and type of recipient. They suggest that knowledge of such important details can be obtained only by

consulting the program administrators and otherwise studying program operations in depth, both at the federal and state-local levels. The second part of the charge of oversimplicity relates to the political problems in achieving Congressional endorsement of these suggested mergers. Most of these programs, critics point out, came into existence in response to the pressure of one or more special groups, which remain alert to exert their influence on Congress whenever the program is endangered. The history of failed mergers is littered with such cases. Hence, these critics argue, without dealing with these underlying political realities, proposing the mergers suggested herein no more than a paper exercise.

The Commission concedes the merit of much of this argument, which is why these proposals are suggested for "serious consideration." In further rebuttal the suggested mergers are at best only modest proposals. Six of the consolidations involve only three existing programs, four involve two, and in all, 14 of the total of 24 would combine five or fewer existing categories. Considering that most recent proposed consolidations, e.g., President Gerald R. Ford's four 1976 proposals, called for combining 10 or more programs, this approach is a conservative one. Further strengthening this conclusion is that a number of the individual proposals fall within the same general functional area, a fact that some would say argues for proposing one larger merger than two or three smaller ones. Although these comparatively modest proposals might require operational adjustments and arouse interest groups' opposition, such problems would be less than if more sweeping mergers were attempted.

Finally, on the political question, the Commission is fully aware of the tugging and pulling that is bound to occur among the many interests who believe they are threatened by a consolidation. Against the force of those resistant interests is the incentive of possible achievement of a grant system that is more responsive and that can be administered in a way that does not threaten to nullify the good that program dollars are intended to accomplish.

Recommendation 4

Presidentially Initiated Grant Consolidation Plans

The Commission recommends that Congress enact legislation authorizing the President to submit plans

for consolidating categorical grant programs to the Congress, that Congress be required to approve or disapprove such plans by resolution within 90 days of submission, and that if approved, such plans to go into effect upon approval by the President of the joint resolution. The Commission further recommends that the legislation authorize the President to make modifications or revisions of plans submitted to Congress any time within 30 days after such submission.⁶

This recommendation is designed to facilitate a substantial reduction in the number of federal grants-in-aid called for by Recommendation 2. It applies a principle to the consolidation of categorical grants that is roughly comparable to that of Presidential initiative and Congressional disposition, which from 1949 to 1973 was authorized for use in reorganization of the executive branch and was reenacted in modified form in the *Reorganization Act of 1977* (P.L. 95-17). Because grant program restructuring is closely related to agency reorganization, the availability of both procedures could be useful in presenting comprehensive and coordinated proposals for Congressional consideration.

Vesting in the President the authority to propose grant consolidation plans gives those most familiar with the day-to-day problems of administering the multitude of narrowly based, uncoordinated categorical grants the tactical advantage of initiating the plans. Another advantage of this procedure is that by imposing time limits on Congressional action, special interest groups have more difficulty in exercising negative influence through delay and other dilatory tactics. These groups—the principal supporters for many specific narrow categorical grants—are among the chief roadblocks to grant consolidation.

The Commission considered three alternative approaches to Presidential initiation of consolidation proposals. The first provided for such plans to go into effect unless rejected by resolution of either house within a specified period after submission. The second would have the plans become effective unless rejected pursuant to procedures similar to those established in 1977 by P.L. 95-17 for approval or disapproval of executive branch reorganization plans. The third alternative was the one adopted by the Commission: requiring Congressional approval or disapproval within 90 days of submission and, if approved, such plans to be effective upon the President's approval of the joint resolution.

The first alternative in effect was a reaffirmation of the Commission's 1967 recommended approach to grant program consolidations—initiation by the President. It paralleled the executive reorganization procedure in effect from 1949 to 1973. Added weight was given to a Presidential recommendation for grant program consolidation by requiring a positive action by Congress to reject a proposal. At the same time the veto power retained by Congress on whether the plans should be permitted to go into effect preserved its essential legislative authority.

This grant consolidation procedure was incorporated in H.R. 10954 (the "Grant Consolidation Act of 1969"—Rep. L. H. Fountain) and S. 2479 (the "Intergovernmental Cooperation Act of 1969"—Sen. Edmund S. Muskie). Moreover, it passed the Senate in 1972 without a dissenting vote (S. 3140).

Under the second alternative considered, a resolution of disapproval would be introduced automatically in both houses at the same time as the President submitted a grant consolidation plan. If after 45 days the resolution had not been discharged by the responsible committees, it would be automatically discharged and subject to being called up by any member for a vote. If no member called for a vote, the plan automatically would go into effect 60 days after submission by the President.

Like the executive branch reorganization procedure under P.L. 95-17 on which it is patterned, this approach was a compromise. It represented a position between allowing a plan to go into effect unless Congress took positive action within a stated period to reject it (the first alternative) and requiring Congress to approve or disapprove within a specified period (the third alternative). It preserved Presidential initiative in the development of consolidation proposals and avoided the possibility of rejection through inaction by providing that plans would be effective within 60 days of submission unless disapproved. Finally, because this approach applied to executive reorganization plans and represented a compromise worked out in the crucible of Congress, it would appear to have the practical likelihood of enactment.

In choosing to support the third alternative—the proposal for consolidation plans to go into effect only if approved by Congress—the Commission was most heavily swayed by two arguments. First, this approach preserves Presidential initiative in the development of consolidation proposals but avoids the constitutional question that has been raised in

regard to the precedent legislation—the *Reorganization Act of 1949*: whether Congress can legally enact legislation by abstaining from action (i.e., by abstaining from a veto), rather than by acting affirmatively. The Commission believes that enough doubt exists on this issue to place in jeopardy any consolidation plans that go into effect without actual approval by Congress. Equally important, the Commission believes that sounder constitutional reasoning supports the procedure requiring affirmative Congressional action.

The second reason for favoring this alternative involves the difference in Congress' attitude toward grant consolidation and organizational mergers. Grants touch very directly on an essential part of legislative power: the authority to establish the direction, scope, and funding of governmental programs. Executive reorganization affects these matters only indirectly, and administrative organization, moreover, is of primary concern to the President, who is constitutionally responsible for seeing that the laws are faithfully carried out. These differences, the Commission concluded, argue for requiring more positive action by Congress on grant consolidation proposals than on executive reorganization plans. The Commission believed that this conclusion was borne out on the pragmatic level by Congress' several refusals in the past to enact a grant consolidation process that did not require positive Congressional action for approval.

One argument advanced against the procedure requiring Congressional action to put a consolidation plan into effect is that a failure of Congress to act at all constitutes a rejection of the plan. This undermines the basic advantage of Presidential initiative, which is so vital to grant consolidation proposals. That argument, however, is answered in the proposed recommendation by setting a time limit (90 days) within which both houses must act on the plans, either approval or disapproval.

Opponents of this proposal contend that it is too inflexible. Congress has no choice but to vote positively or negatively on a plan. However the possibility for negotiation between the President and Congress is introduced by authorizing Presidential revisions to be submitted within 30 days following original submission and is comparable to a provision in the recently enacted Executive Reorganization measure. Thus if negotiable differences between the two branches arise after submission, opportunity exists for resolution and for permitting the President to modify the plan, improving approval chances.

Recommendation 5

A "Sunset" System

The Commission recommends that Congress enact "sunset" legislation providing, at regularly scheduled intervals, for the termination, thorough reassessment prior to the slated expiration dates, and reauthorization, where warranted, of all grant-in-aid programs by functional areas. In their reassessment, and as already stipulated under Section 601 of the *Intergovernmental Cooperation Act of 1968* (P.L. 90-577) for grants-in-aid without termination dates, Congressional committees should give special attention to:

- a) the extent to which the purposes for which the grants-in-aid are authorized have been met;
- b) the extent to which the objectives of such programs can be carried on without further financial assistance from the federal government;
- c) whether or not any changes in purpose, direction or administration of the original programs, or in the procedures and requirements applicable thereto, shall be made; and
- d) the extent to which such grant-in-aid programs are adequate to meet the growing and changing needs that they were designed to support.

In addition, the Commission recommends that the relevant Congressional committees in their periodic comprehensive reviews assess:

- a) the consequences of eliminating a program, consolidating it with a related program, or funding it at a lower level;
- b) whether or not the statutory purposes of programs are stated clearly enough to permit adequate administrative and Congressional evaluation;
- c) whether or not the cost-sharing arrangements (such as matching and maintenance of effort) included in grants are appropriate in light of the programs' purposes (such as stimu-

lation or support) and whether such arrangements are actually effective in practice;

- d) whether or not the factors used in distributing assistance funds are appropriate to meeting fiscal equalization, program, or other stipulated grant needs and whether such factors actually serve as the best available indicators of such needs; and
- e) whether or not grant eligibility provisions are designed to assure that potential recipients are the most appropriate in light of their respective fiscal, servicing, and jurisdictional roles in the aided program area.

This recommendation seeks to strengthen Congressional review of grant-in-aid programs—a long-standing goal of the Commission—by applying to such programs the procedures and action-forcing requirements contained in the proposed "sunset" legislation now before Congress.

A number of the findings in the ACIR study of the intergovernmental grant system indicate the need for strengthened Congressional review of grant-in-aid programs: the existence of a multitude of narrow-based categorical grants, which raises questions about program narrowness and coordination and a definite presumption of excessive and inconsistent administrative and other requirements; the existence of over 150 categorical programs authorized by statute but not funded; and the disappointing performance of Congressional oversight, traceable in large measure to the continuing pressure to assign priority to legislation and constituency casework and Congress' innate preference for those activities.

Title VI of the *Intergovernmental Cooperation Act of 1968* addressed one aspect of the Congressional oversight question by focusing on programs that have no termination dates and are not subject to review in the ordinary course of Congressional consideration of possible renewal. The 1968 act provided for review of such grants every four years. In practice, however, the reviews have rarely been made because nothing in the act compels committee compliance with the review process.

The proposed "Sunset Act of 1977" (S. 2) holds promise of overcoming these weaknesses in the present Congressional oversight of grant programs. It would establish an improved review procedure for the complete inventory of existing programs—both

grant and nongrant—with certain exceptions, and would include a triggering mechanism, assuring Congressional action, positively or negatively, on every program scheduled for review. All federal programs would be scheduled for mandatory reauthorization every six years. Where reauthorization is not provided, no money could be spent to continue the program. Programs within the same budget functional and subfunctional area would be grouped for reauthorization, facilitating a coordinated review of related programs. For grant-in-aid programs this grouping should encourage development of grant consolidations. No program could be actually reauthorized unless the authorizing committee completed its review and provided a substantial justification for continuing the program. In its review the committee would be required to consider the consequences of reducing a program's authorization rather than simply recommending an incremental funding increase.

In making the present recommendation, the Commission, in effect, is endorsing the application of the "Sunset Act" to grant-in-aid programs. The critical features of that act for grants-in-aid, as well as other programs, are the firm six-year termination period for all program authorizations and the enactment of a new authorization based upon a substantial justification by the responsible legislative committee. This procedure is essentially what this Commission recommended in 1961 in its report, *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Government*.

The predecessor of S. 2 was originally introduced in the 94th Congress (S. 2925, H.R. 11734). It was reported by the Government Operations Committee in the Senate and subsequently reported by the Rules Committee without recommendations, but also without prejudice to the "sunset" concept. In the House the bill did not get beyond the hearings stage.

The Senate Rules Committee advocated that action on the bill be deferred until the 95th Congress to give the Senate additional time to consider some questions raised and explore the bill's ultimate implications. A major concern was the workload—overall size and the way it would be distributed among committees and over the multiyear period. Other doubts were expressed about the lack of experience with zero-base review (which was a key element of the bill), the absence of a definition of "program," and the uncertain impact on federal-state relationships.

In introducing S. 2 in 1977, Sen. Edmund S. Muskie singled out the two major criticisms of the earlier proposal, which he stated were remedied in S. 2. The first criticism was the imposition of burdensome requirements on Congressional committees. The initial bill set forth the requirements for zero-base program review and a rigid schedule for its accomplishment, and made the President and executive branch responsible for initiating the process. S. 2 has substantially modified these provisions, making the executive branch responsible for providing information and assistance upon request but giving Congressional committees broad discretion in conducting the review process. The detailed prescription of the zero-base approach is deleted, but the general concept is retained by directing committees in their reauthorization reports to include "an assessment of the consequences of eliminating the program, of consolidating it with another program, or of funding it at a lower level." In general S. 2, compared to the 1976 version, simplifies and shortens the review process and makes the review procedures less rigid. Further, flexibility is provided by inclusion of a one-year grace period for programs that terminate unintentionally rather than by design because of floor delays that prevent the majority from acting on a reauthorization recommendation.

Despite the revisions in the original sunset bill, skeptics remain. Although conceding that some of the rigidity in the prescribed process has been removed, they still believe that the workload is a problem, and that scheduling should give more recognition to the variations of budget significance among the various accounts. They suggest moving into the procedure on a more gradual, possibly pilot, basis. Some contend that the federal assistance programs alone would constitute a big enough challenge. Others are still bothered by the lack of a definition of "program."

This Commission does not presume to comment on the sunset proposal as it applies outside the inter-governmental area. Regarding this sphere, however, the Commission believes as strongly as it did in 1961 that sunset review is a sound procedure for Congress to apply to grant-in-aid programs. Undoubtedly problems of implementation will arise as happens in the initiation of any new procedure, but the Commission is confident that with the allocation of a reasonable amount of time, effort, and resources, these can be overcome. ACIR is encouraged in this belief by the example of 16 states that have adopted sunset review in varying degrees.

Some workload scheduling problems preeminently involve grant programs because of their large number. Commission staff have examined the review schedule proposed in S. 2 to see whether it creates problems by excessive bunching of these programs in particular years for certain committees. It appears that the schedule spreads the number of program reviews over the six-year period in a reasonably even fashion, considering the manner in which the 442 categorical grant programs are distributed among budget functions and legislative committees. The problems of overloading individual committees (particularly Education and Labor and Public Works and Transportation in the House, and Labor and Public Welfare and Public Works in the Senate) will exist as long as the present committee structure continues. Under these circumstances the task of the committees, particularly those carrying heavy loads, will be, as some observers have suggested, to consider the significance, budgetary and otherwise, of individual programs in deciding how much time is devoted to review.

The Commission believes that during the periodic sunset reassessments, Congressional committees should focus their attention on certain issues that are already identified in Section 601 of the *Intergovernmental Cooperation Act of 1968* but have not been used. Some are specified or implied in S. 2 and include: the extent to which authorized program purposes have been met; the extent to which a program's objectives can be achieved without further federal aid; whether changes in purpose, direction, procedures, requirements, or administration of the original program are indicated; and the extent to which the program is adequate to meet the growing and changing needs that it was designed to meet.

On the basis of its current study of grants-in-aid, the Commission further believes that certain other considerations deserve particular emphasis in the review of grant programs:

- The consequences of eliminating, consolidating, or reducing the funding of a program need to be examined. Grant programs should be given a careful zero-base scrutiny, with a view to possible elimination or reduced funding of a program or to possible consolidation with other related programs.
- Whether the statutory program purposes need clarification to facilitate administrative and Congressional evaluation should be considered. One of the biggest problems in oversight and evaluation is the imprecision in defining legislative intent. Often this obscurity is due to the compromises that were necessary to achieve passage of the authorizing legislation. Sometimes, however, it may be due to hasty deliberation or poor drafting. In any case a six-year review provides an opportunity to bring greater clarity and consistency to the program's goals and objectives, thus facilitating later reassessment via the "sunset" system.
- Whether the cost-sharing provisions in the grant are consistent with and actually achieve the program's purposes is a vital dimension of grant review. Grants range widely in their cost-sharing provisions—principally matching ratios and maintenance-of-effort requirements. This situation is particularly baffling when programs similar in size, purpose, and eligible recipients have different cost-sharing provisions, which raises basic questions about the meaning of the provisions. Yet even when the intent of cost-sharing requirements is spelled out or can be reasonably inferred from legislative history (such as stimulation of new program activity or continuing support), whether that intent is being realized often is difficult to ascertain. The effective use of cost-sharing provisions requires a clear indication of the result expected from using one provision over others, and a follow-through procedure to ascertain whether the expectation came true.
- Of special concern in this regard are programs of aid to areas of substantial and long-standing state or local activity. In such cases a matching provision cannot be expected to stimulate additional state/local expenditures unless it is accompanied by an effective maintenance-of-effort requirement. Barring such a requirement, the matching provision in these mature programs should be carefully scrutinized for possible termination.
- Whether the factors incorporated in allocation formulas are appropriate to meet Congressional intent, such as fiscal equalization or program need, and whether they are the best indicators available are two other vital

fiscal considerations. As with cost-sharing provisions, effective use of allocation formulas requires a clear understanding of what outcomes are sought by the formulas and a monitoring to see whether they are the most appropriate. Allocation formulas have become a topic in the emerging debate over the grant system. Questions of equity, the appropriateness of allocational factors in light of program intent, and the availability sometimes of new and better proxies of program need are all subsumed under this issue.

- Whether the grant recipients at whom the program is aimed are those most likely to use the funds effectively to achieve Congress' intended purposes cannot be ignored. Different potential recipients at the state and local levels have different fiscal, servicing, and jurisdictional roles that affect their performance in the use of the federal grant funds. The current choice of eligible recipients can make a critical difference in program success, and efforts to arrive at this judgment strengthen Congressional understanding of the diversity within our 50 state-local servicing systems.

Careful review of all these considerations affecting the design and administration of grant programs is necessary to assure that each program has all the attributes, including a cost-sharing provision, an allocation formula (if it is a formula-based program), and designation of properly eligible recipients, necessary for the achievement of Congress' intended goals and that it is in fact achieving them. Conditions may change in the six years between mandated reviews. For example fiscal, economic, or political developments may dictate a shift in program priorities or emphases. The capabilities of eligible recipients may rise or fall, or a promising new class of recipients may be determined. Finally the original program aims may be judged to be satisfied. The pace of change requires that these conditions be re-examined carefully at regular intervals so that grant moneys may achieve maximum program impact.

Recommendation 6

Advance Funding

The Commission finds that state and local performance of federally funded programs is affected

adversely by the uncertainty of future levels of federal funding of those programs. **The Commission therefore recommends that Congress, in consultation with representatives of state and local governments, take steps to reduce funding uncertainties, including:**

- a) evaluation by the Appropriations Committees of existing grant activities to determine whether any additional ones should be funded a year or more in advance;**
- b) adoption of a rule for completing reauthorization action on grant programs a year before expiration of the authorization;**
- c) establishment of a two-year appropriations cycle for grant programs that are amenable to to such a cycle but that are now funded one year at a time; and**
- d) setting budget targets for grant programs for two years beyond the budget year.**

State and local governments' management of federal grant programs has often been handicapped by the many uncertainties associated with dependence on federal funding. The lack of reliable information about future funding levels creates difficulties for recipients to plan, budget, and implement grant programs. It generates confusion in program management and damages program effectiveness. This recommendation proposes Congressional and agency actions to make federal funding more responsive to the budgeting and operating schedules under which state and local governments function.

This Commission has previously addressed the issue of advance funding of federal grants in a more limited context. In our 1970 report, *Federal Approaches to Aid State and Local Capital Financing*, ACIR recommended multiyear advance budgeting in federal aid programs involving extensive long-term capital financing, such as in highways, mass transportation, and air and water pollution abatement facilities. The present recommendation, covering the full range of federal grant programs, for operating as well as capital purposes, builds on ACIR's earlier study and recommendations.

Congress took formal cognizance of the funding uncertainty problem in 1974 by adopting the *Congressional Budget and Impoundment Control Act*, which directed the Office of Management and Budget

(OMB) and the Congressional Budget Office (CBO) to conduct jointly a study of the feasibility and advisability of advancing all budget decisions, or some of them, so that they would be made at least 12 months in advance of, instead of just prior to or part way into, a fiscal year. OMB and CBO consulted closely with one another in their studies but presented separate reports early in 1977. Although the studies examined the advance funding issue across the entire range of the budget, both concluded that such funding would be most feasible and effective in programs of grants-in-aid to state and local governments.

CBO commissioned a special study by outside consultants of the effect of advanced federal budgeting in this area of state and local program delivery. The study found that:

... effective program management is impaired by the many uncertainties associated with federal funding. Areas of uncertainty include the funding level, regulations, program guidelines, the application process, distribution formulas, and award decisions. Analysis of the problems also indicated that advanced budgeting was perceived as an important vehicle for reducing uncertainties and improving program delivery at the state and local levels.⁷

The OMB report made a similar finding. It likewise concluded that advance appropriations would help alleviate these problems, although it pointed out that some would not be relieved, such as the difficulties in providing federal aid recipients with definite information about funding for specific grants.

The joint ACIR-ICMA survey of city and county officials in 1975 confirmed the seriousness of the federal funding problem in the minds of local officials. Respondents were asked to rate federal grants and 11 other major sources of local revenue with respect to the difficulties caused for budget planning. In ranking the sources the officials were asked to consider the dollar amount involved as well as the degree of certainty of revenue flow. The federal categorical grant was viewed as creating, by far, the greatest difficulty.

As CBO has pointed out, many federal spending decisions already are made in advance, accounting for 70% of the total budget. These include interest on the national debt, social security pensions, the retired pay of servicemen and the pensions and

educational benefits of veterans, federal aid to elementary and secondary schools, and general revenue sharing. Yet the general area of grants to state and local governments has not been thoroughly canvassed for possible further application of the advance funding concept. The first part of this recommendation calls for such action, urging that the appropriations committees of the two chambers evaluate all existing grants to identify which, if any, might be placed in the advanced funding group. In making their evaluations, the appropriations committees should call for counsel of the cognizant legislative committees, because the latter would be most aware of the specific program needs that would or would not justify advance funding.

State and local officials consulted in the CBO study generally agreed that in such an evaluation, Congress should look for the presence of four conditions to qualify a program for advance funding:

- No alternatives to the program exist.
- The program is large.
- Significant complications exist in program implementation, such as the need to closely coordinate the program with other ongoing programs and the need for a substantial start-up effort, including client outreach and screening and securing facilities and staff.
- Direct financial demands are placed on state and local governments in the form of hard cash-matching requirements, maintenance-of-effort requirements, or federal funding phaseouts.

Advance budgeting is not without its adverse effects, which were made plain in the responses OMB received from federal agency executives. They indicated that departing from the normal current funding practice would mean probable loss of some control over short-term spending, because the federal government's flexibility to make changes in the face of unforeseen conditions would be reduced. Although advance budgeting should help improve federal agencies' program planning and execution, this improvement would be at the expense of increased difficulty in developing and later justifying accurate budget estimates. Finally it would have a distortion effect on budgeting, because programs that are funded in advance would have an advantage

over other programs in competing for limited budget resources.

In the Commission's judgment these concerns are legitimate. Yet if advance funding is approached selectively, as suggested in this recommendation, they do not outweigh the advantages to be gained in terms of greater certainty and predictability for state and local grant recipients.

The second part of this recommendation concerns program authorizations. The question of authorization becomes critical for state and local officials when an existing grant authority is due to expire. States and localities participating in ongoing programs are placed in a state of indecision when Congress does not take timely action on reauthorizations.

The recommendation therefore calls on Congress to adopt a rule requiring action on grant programs' reauthorization a year prior to expiration of the existing authorization. That amount of advance notice is necessary for states, counties, cities, school districts, and other jurisdictions to know the status of Congressional action before entering their own new budget cycles. The Congressional budget act already contains similar procedural deadlines for completing action on critical parts of the budget process.

The third part of the recommendation supports a change that would have the dual virtue of providing more certainty for potential grant eligibles and reducing the workload of Congress and particularly its Appropriation Committees. CBO indicates that for a host of federal activities, an annual scrutiny is justified only by habit; they could as well receive their funds and their scrutiny two years at a time. Although the examples that come to mind most readily are direct federal activities, such as the Soldiers' and Airmen's Home and the Bureau of the Mint, many also exist among grant-in-aid programs, particularly those generally classified as ongoing support programs. Among the many possibilities are the several civil defense programs, water resources research, tree planting and reforestation, cooperative forest fire control, fish restoration and management, wildlife restoration, agricultural experiment stations' cooperative research, highway programs for the elimination of roadside obstacles, public land highways, state marine schools, evaluation of Head Start programs, basic grants to states for strengthening state and local education agencies, consumer and homemaking education, and comprehensive statewide planning for state postsecondary education commissions.

As CBO further points out, two-year appropriations are neither radical nor untested. They are used with good results in 21 state governments where the whole budget is enacted for two years at a time.

The final part of this recommendation on funding certainty also links improvement in revenue certainty for state and local governments with a broader Congressional objective. It urges Congress to set the levels of federal taxing and spending it believes appropriate for the various budget categories—"budget targets"—two years farther out in the future. This would mean that specific taxing and spending recommendations made by the committees would be considered against not only the established targets for the current budget year, but also two additional years. The targets would always be subject to amendment in the future but meanwhile would serve to induce Congress to make conscious, explicit choices of what it wants to do for those future years. For state and local grant recipients, the adoption of advance targeting would introduce still another influence for bringing certainty into anticipating the flow of federal grant funds.

Recommendation 7

Greater Responsiveness to State and Local Timing Problems

The Commission recommends that Congress and the administration take steps to time grant implementation procedures so they are more responsive to the scheduling requirements of the state and local governments. To achieve this end it is recommended that:

- a) Congress make certain that the procedural requirements imposed in grant legislation are consistent with the schedule by which federal funds are appropriated and allocated;**
- b) Congress extend the practice of fixing firm statutory deadlines for federal agency issuance of regulations and for completion of action on submitted state and local grant applications; and**
- c) federal grantor agencies, in consultation with representatives of state and local governments, examine the possibility of providing increased lead time in changing rules, regulations, or allocation formulas.**

This recommendation addresses another timing problem imposed on state and local recipients of federal grants: that caused by the scheduling of various procedural steps in legislation or administrative regulations. CBO observes that:

The uncertainty (imposed on state and local recipients) stems in part from the fact that at every level the actors are on different cycles. The actors also participate sequentially, and so even when the cycle variances are overcome, delays along the line bear most heavily on the participants at the end—the program operators and the people they serve.⁸

A problem sometimes arises because legislation sets forth certain procedural steps that are not synchronized with the timing of appropriations and allocations. CBO cites the case of Title I of the *Comprehensive Employment and Training Act of 1973* (CETA). The law required a local comprehensive manpower plan to be formulated by an elaborate consultative and review process. By complying with that process, prime sponsor applicants found great difficulty in qualifying in time for the grant award deadlines. The recommendation therefore calls for Congress to make certain that requirements imposed in grant legislation are consistent with the schedule by which federal funds are appropriated and allocated.

Recipients' planning for grant programs also is complicated by long and seemingly inexplicable delays in the issuance of implementing regulations by administering agencies. In response to this problem Congress, in recent years, has sometimes specified the deadlines for issuance of regulations in the authorizing legislation. Administrators chafe at these deadlines, particularly when they are pressed to involve affected interest groups in regulation writing, which tends to slow down the process. State and local officials are often among the most insistent of those demanding such consultation. If Congress takes due account of these pressures on administrators and allows a reasonable amount of leadtime, however, its establishment of deadlines for administrative action can be another step toward easing the timing problems of the parties at the end of the implementation line—the state and local service deliverers.

Similar considerations argue for Congress to require grantor agencies to act on grant applications

within a reasonable time. Congress should write such deadlines into the authorizing legislation wherever feasible.

Finally this recommendation calls on federal grantor agencies to examine their own procedures and work habits with a view to bringing more certainty and timeliness into the grant administration process as it affects their state and local grantees. Providing increased lead time for grantees to adjust to changes in rules and regulations and in allocation formulas is urged by OMB as a means of producing improved program performance by states and localities without the inflexibility that advance appropriations impose on the grantor agencies.

Recommendation 8

Purposes of Matching

The Commission concludes that matching requirements may have several effects, including the encouragement of recipient concern for the efficient administration of federally aided programs, and the adjustment of federal and recipient shares of program costs to reflect the degree of national, as opposed to state or local, benefits. The Commission further concludes that different types of matching requirements have different effects. A grant with a no-match or a low-match requirement provides the strongest incentive for eligible participants to participate in a program. High-match provisions, on the other hand, increase the price facing the recipient and may discourage some eligible jurisdictions from participating.

The Commission recognizes that a fixed matching requirement may create difficulties for some jurisdictions with high levels of program need, but low fiscal capacity, to participate. In addition the differing matching requirements that now exist for the wide array of different grant programs may distort state and local budget decisions in ways unintended by Congress.

Therefore, the Commission recommends that Congress carefully consider the degree to which the costs of individual federally aided programs should be shared, whether recipient contributions are necessary to encourage efficient administration, and whether recipient governments should be expected to increase financial commitments to the aided programs, and design matching requirements accordingly. Matching should be required primarily when Congress believes recipient cost-sharing provisions

are necessary to encourage more responsible recipient administration or when it wishes to encourage new or additional spending for the aided activity. Matching requirements generally should not be imposed in programs of aid to established state or local activities for which federal aid is small relative to recipient spending for the aided activity. Grants with relatively high matching requirements usually should be restricted to instances when Congress is more interested in eliciting significant recipient financial support and is less concerned with widespread adoption of the aided program.

This recommendation urges, among other things, that Congress consider the effect categorical grants have on the prices facing recipients for federally aided programs. No-match grants have the greatest price effect because they offer "free" money. Assuming the grant is large enough to support a program, a potential recipient would find it difficult to resist the pressure to adopt such a federally aided program. Grants with unusually high matching requirements, on the other hand, give a potential recipient reason to think twice about accepting a grant, because the recipient must spend some of its own money to obtain the federal aid, and the high-match provision may make it easier for state and local officials to resist pressures to participate. Such a grant may not stimulate as many recipients to participate but may elicit considerable new financial effort where the money is accepted. Thus grants with relatively high matching requirements may be most appropriate for certain demonstration and project grant situations where Congress wishes to fund limited numbers of highly motivated applicants. No-match grants, on the other hand, are more appropriate for aid of established state and local activities or functions where stimulation of new recipient spending is not an overriding goal.

Congress should not only carefully evaluate the need for a matching requirement when enacting a new grant program, but also consider whether the requirement should remain the same over an indefinite number of program years. A required match for a particular recipient can be increased gradually over several fiscal years, thus bringing about eventual state-local assumption of the major financial burden of a program. Thus an initially low matching requirement eases the burden of entering a new program, but over time the recipient is expected to assume major financing responsibility. This approach is consistent with the grant strategy advo-

cated by Charles Schultze for medical care delivery institutions, wherein institutional support grants would be converted to temporary development assistance.⁹ The basic premise is that once a grant has served its stimulative objective, it should be terminated. Although the sunset process advocated in *Recommendation 5* embodies this philosophy on a program level, the rising match addresses the issue at the level of individual recipients. The overall grant program might not end, but the available federal funds would be shifted to new participants.

This approach will falter if the withdrawal of federal support is not credible to recipient officials. Thus if they believe Congress will appropriate new money, they will avoid making the necessary budget adjustments. Moreover because of limited terms for many public officials, those who must raise the funds to meet the increased future financial share implied by such a grant may not be the same officials who initially accepted the grant.

When calling for rationalization of matching requirements, advocates state that certain studies demonstrate that high-, low-, and no-match provisions do make a difference in recipient grant participation. Hence the need to clarify these requirements and to make them consistent is underscored by the statistical evidence indicating their differentiated impact on grantee program involvement.

Critics of rationalizing matching requirements advance a range of arguments. Some contend that because of the fragmented and incremental manner in which the overall grant system has evolved, no clear basis exists for differing matching percentages in different programs. Existing individual matching provisions, they state, are little more than ad hoc estimates of appropriate cost-sharing arrangements.

Others claim that differing requirements for different programs distort recipient budget decisions, by prompting officials to participate in those programs having the most favorable matching rates, regardless of state or local priorities. Thus a no-match grant is more appealing than a low-match grant, which, in turn, is harder to resist than a high-match grant. Differing matching requirements presumably reflect differing Congressional priorities. Yet these critics maintain that this seems unlikely given the decentralized nature of the Congressional decisionmaking process.

Still other critics would argue that because no-match grants, as well as grants with matching requirements, tend to be stimulative, Congress should use no-match grants in periods of inflation, of

strong pressures for public sector spending, and of expanding state-local payrolls.

Finally, one group of critics finds that with the advent of multiple sources of intergovernmental funding, most aid dollars become fungible, making matching something of a "shell game" in such situations.

The Commission concedes that matching requirements remain less than perfect policy tools and may be unfair to some jurisdictions. They may upset state and local priorities in ways unintended by Congress, and they may not always result in new state or local spending. Yet the Commission concludes that such requirements are a legitimate means by which Congress can influence state and local efforts toward Congressionally determined priorities. To that end Congress should choose specific matching provisions carefully, as called for in this recommendation.

Recommendation 9

Maintenance-of-Effort and Nonsupplant Requirements

Congress has frequently used maintenance-of-effort requirements in an attempt to assure that federal aid will be used to supplement, and not substitute for, recipient government spending for an aided activity or function. The Commission finds, however, that considerable doubt arises about the enforceability, and thus the effectiveness, of these requirements.

Therefore, the Commission recommends that Congress request the General Accounting Office, or other appropriate organizations, to research and report on the effect of existing maintenance-of-effort requirements in categorical grants.

The decision of whether or not to use maintenance-of-effort requirements is central to Congressional intentions concerning cost-sharing provisions in categorical aid programs. If Congress intends only to subsidize state or local spending for a particular activity or function, no need exists for such a requirement. In this case recipient use of the federal aid to substitute for own-source spending is compatible with Congressional intent. If, however, Congress intends the federal aid to add to recipient spending for the aided activity or function, a maintenance-of-effort requirement may be necessary; without such a provision, the recipient may be inclined to use some federal funds to free its own

funds for activities that are considered of a higher priority than the aided activity.

Although such requirements are common features of categorical grants, evidence suggests that they are difficult to enforce and that their effectiveness is uncertain. Some nonsupplant type requirements, for example, do not clearly specify the level of spending to be maintained but merely stipulate that recipients shall maintain own-source spending at the level that would have existed in the absence of the federal aid. An Office of Education legal opinion found in 1975 that these types of requirements are particularly troublesome and concluded in favor of requirements that clearly specify an actual level of spending to be maintained.

In addition many maintenance-of-effort provisions are believed to have mostly a one-time effect, because in periods of inflation and/or natural growth in government revenues and spending, the requirement becomes less meaningful over time. Newly available federal aid therefore may not displace previous recipient effort, but it may take the place of future recipient effort that would have occurred in the absence of aid. Thus even with a maintenance-of-effort requirement, federal aid may serve as a type of prospective fiscal relief.

Fixed level maintenance-of-effort requirements, if totally inflexible, also can create hardships in special situations. They may be unfair to those jurisdictions that have funded aid programs at high levels prior to the availability of federal funds. However other inequities arising from special recipient circumstances may be subject to amelioration. For example special consideration should be given to recipients incurring an unusual, one-time expense in the year immediately preceding a grant program. In addition the economic slowdown of recent years has made it obvious that maintenance of the existing level of expenditure is not necessarily an easy or normal course of events. A standardized maintenance-of-effort provision could stipulate instances in which fixed level requirements legally could be modified or waived. The withdrawal of federal aid for failure to satisfy a maintenance-of-effort requirement on top of a decline in recipient fiscal capacity only magnifies the problem. However if general revenue support from sources such as revenue sharing and countercyclical programs were sufficient to maintain recipient fiscal capacity, this problem would not arise.

Although the Commission recognizes that some means of ensuring continuation of recipient effort

often is integral to Congressional purpose, the impact of existing maintenance-of-effort requirements remains uncertain. Therefore the Commission concludes that Congressional grant policy would benefit from a systematic investigation of the impact of maintenance-of-effort requirements. Such a study also could illuminate the situations in which fixed level maintenance-of-effort requirements create unwarranted burdens of grant recipients and suggest guidelines for waivers or modifications. The General Accounting Office, because of its familiarity with grant programs and its accounting expertise, is an appropriate agency for such a study.

Recommendation 10

Improving Allocational Provisions

The Commission concludes that in many programs and functional areas, formula-based grants are allocated among recipients according to very general statistical indicators of program need when more precise indicators are feasible and desirable. Furthermore the Commission believes increased attention should be given to assuring that grant funds are allocated in relation to actual service needs.

Therefore, the Commission recommends that grant formula allocation provisions be examined carefully by the appropriate legislative committees of Congress, as part of the review called for in Recommendation 5, and by the executive departments and agencies, and where desirable and feasible updated to include more precise and specific indicators of program need. The Commission further recommends that a critical review be given to formulas that distribute funds according to total population or equal shares; to minimum and maximum grant entitlements; and to any formula factors that may have inappropriately or unintentionally favored one set of recipients over another.

Most formula-based categorical grants are allocated in large part according to the need-for-service principle, as indicated by the nature of the factors that commonly appear in grant formulas. Fifty-six of the 146 formula-based categorical programs include some segment of the population (an age group, urban population, farm population, etc.) as a factor in allocating funds. Sixty-one programs include a program-specific need measure of a type not readily classifiable under general analytical headings.

Although the underlying allocational philosophy seems clear, some critics believe that many grant formulas are insufficiently precise. In too many instances, they argue, measures of need that are at best rough proxies of actual servicing requirements have been employed. Moreover most formula factors do not take into account the extent to which potential needs are already being met.

A closely related concern is the continuing practice of allocating funds for many programs, at least in part, according to the total population of each state or in equal shares per state. As of 1975 total population enters into the formulas of 28 categorical programs, as well as four of the five block grants and general revenue sharing. Thirty-two programs provide for at least a portion of their funds to be distributed equally among the states. Although these procedures, found in many of the earliest grants, can be defended as reflecting basic values of political equity or fair share, and historically may have reflected a lack of better statistical data, critics believe that neither practice offers more than a very rough assessment of the need for services.

Similar criticisms are made of provisions that assure a state a minimum grant entitlement, regardless of actual service need as indicated by the operation of the formula, or that set a ceiling on the maximum amount of a grant. These provisions appear in 49 and 14 programs, respectively.

The argument is advanced that too many programs are not targeted adequately to the states most in need. Better, more refined measures of need should be developed, critics believe, and existing grant formulas should be reviewed and, where necessary, updated. Some suggest that the interests of various groups of states—urban, rural, large, or small, midwestern, northeastern, and so forth—have been overlooked or even subjected to fiscal discrimination; politics, not actual need, has too often been the determining factor.

These critics see hope for improvement in the widespread availability of computer technology and the growing interest in governmental effectiveness, and social indicators research has substantially increased the technical capacity to develop precise grant formulas. The limits imposed by the need for administrative simplicity at the time when many grant programs were first authorized may no longer apply, or apply with less force.

Some thorough analytical work concerning grant formulas has recently or is now being performed. Extensive research has assessed the formulas of the

general revenue sharing and community development block grant programs, for example, and Congressional mandates have led to the analysis of the poverty measure and unemployment data that appear in other grants. These steps are in the right direction, critics believe, and are indicative of the type of studies that can and should be undertaken.

In the past the Commission has supported the basic principle that aid should be allocated primarily according to programmatic need and has called for the improvement of need measures. A recommendation adopted in 1964 called upon the President to require executive branch agencies to review periodically the adequacy of the need indexes employed in their grant programs.¹⁰ That report criticized the allocation of funds on an equal-shares basis and noted that the use of total population was not uniformly appropriate, although preferable to the use of measures with undemonstrated validity. ACIR's 1967 report on fiscal balance called for the standardization and simplification of matching and apportionment formulas¹¹ and the development of a national system of social accounts and comparative standards for measuring the performance of urban governmental functions.¹² A companion study on state aid in this current series urged that the states "rely on specific measures of program need to allocate grants for the support of all conditionally aided public programs other than minimum foundation education programs."¹³

Few quarrel with the need principle, although many believe that fiscal capacity—the ability to finance a minimum level of program services—also should be taken into account. One basic philosophical objection, however, is that the most needy jurisdictions are not necessarily those that will make the most efficient and effective use of additional resources. Indeed this reason led Congress to specify that the grants in the Appalachian assistance program should be concentrated in areas with significant potential for future growth and where the expected return on public funds invested will be the greatest. This issue has arisen more recently in connection with the community development block grant, with some analysts arguing that limited federal funds can be stretched the farthest if they are employed in areas of incipient, rather than deep and perhaps irreversible, urban decline. In certain instances additional program expenditures may seem to actually aggravate rather than solve problems. Some analysts argue that road improvements may stimulate additional traffic and hence add to rather

than alleviate congestion, while high social welfare benefits may attract additional numbers of the poor into areas lacking in opportunities for economic advancement.

In such cases some believe that an explicit policy on national growth or social welfare is required to guide federal investments. Rates of growth, the carrying capacity of a state or locality, and its style and quality of life should be the basic determinants of grant outlays—not the need for a particular service as indicated by inflexible statistical indicators.

Other objections center on issues of practicality and cost. In many instances more refined need measurements might make only minor changes in actual grant allocations. Yet social data have their price, financially and administratively. Certain social needs are difficult to define, let alone measure. Some types of performance and need data can be gathered only through reports or research that would be burdensome or objectionable to the states affected. The census data now employed have at least the virtues of objectivity, clarity, and simplicity, however much they may lack in precision. Finally, some observers view development of a grant formula as essentially seeking political acceptability rather than technical precision. All of these skeptics doubt whether the effort to develop more refined formulas would be worthwhile.

On balance, however, the Commission believes that a convincing case exists for renewed attention to allocation formulas. The Commission recognizes the difficulty in determining whether or not federal grants in the aggregate are being distributed equitably among the states. What might on the surface appear to be inequitable treatment may be consistent with the objectives of a particular grant program. However considerable concern now arises about the fairness and efficiency of allocational formulas. The targeting issue has become of major concern because of the trend toward the consolidation of older project grants into formula-based programs; because of surprising regional demographic and developmental changes; and because of the difficult fiscal conditions facing state and local governments during a period of unemployment and inflation.

The issue, therefore, is pivotal, because nearly 70% of all categorical assistance and well over three-quarters of all federal aid outlays, including block grants and revenue sharing, are distributed by formula. Reassessments already have been undertaken in certain program areas. In the interests of

equity, effectiveness, and efficiency in the use of the federal assistance dollar, these efforts should be encouraged, continued, and expanded.

Recommendation 11

Administration of Generally Applicable Grant Requirements

The Commission concludes that because of the number and importance of generally applicable requirements affecting federal grant programs, they need special attention. They affect widely divergent and fundamental matters such as civil rights, environmental protection, employment conditions, merit systems, wage rates, relocation benefits, access to governmental information, and rights of the handicapped. The general objectives of these requirements are desirable. Nevertheless instead of standardizing and helping to simplify these elements in the administration of federal grants, across-the-board requirements have been administered, for the most part, in a manner that allows significantly different approaches among agencies, wide variances in compliance from one program to another, and even conflict in some cases.

Hence, the Commission recommends that:

- a) **Congress and the President review all new and existing statutory requirements that have general applicability to federal grant programs, and assign each such requirement to a single administrative unit within the executive branch, by legislation or executive order, with clear responsibility and authority for achieving standardized guidelines and simplified administration for effective compliance by all affected federal agencies;**
- b) **the Office of Management and Budget establish a clearinghouse for all such generally applicable requirements, monitor their administration, and bring to the attention of the President and the Congress from time to time any identified conflicts or duplications among such requirements and potential opportunities for resolving such conflicts, consolidating similar requirements, and simplifying administration;**
- c) **all such generally applicable statutes and regulations be reviewed by Congress and the**

President for the purpose of consolidating those that are related to each other and of simplifying or terminating those that have proven to be excessively burdensome, either fiscally or administratively, or to be impracticable to implement;

- d) **in developing administrative regulations to implement generally applicable requirements, that the federal administrative units designated in part (a) of this recommendation consider the estimated costs as well as benefits of securing compliance under potential administrative measures, and that "certification acceptance" procedures be incorporated, whenever appropriate;**
- e) **the added costs of generally applicable requirements—whether administrative or otherwise and whether incurred by the central administrative unit, the various federal agencies subject to compliance, or the nonfederal grant recipients—be recognized in law and that provisions be made for meeting them; and**
- f) **federal administrative regulations to implement generally applicable requirements allow and foster the practice of contracting by grant recipients with other units of government—whether local, state, regional, or federal—better able to meet such requirements on behalf of such recipients.**

Requirements that are generally applicable to federal grant programs on a more or less across-the-board basis are of two types. First, some are legislated in a single act that specifies this broad coverage; other requirements fairly consistently have been placed in the acts authorizing or reauthorizing individual grant programs. Examples of the first type include environmental protection, uniform relocation, and intergovernmental planning reviews of federal aid projects. Examples of the second type are wage and hour rates, civil service merit systems, and citizen participation. Other broadly applicable grant requirements are found in both forms. For example Title VI of the *Civil Rights Act of 1964* quite generally provides that no federal aid funds can be spent in a discriminatory fashion, but at the same time the acts creating numerous individual grant programs have civil rights provisions of their own and special aspects of civil rights concerns are incorporated into

supplemental across-the-board acts. The Commission's recommendations herein are meant to apply to all these forms of generally applicable requirements.

The Commission's research shows that most generally applicable requirements presently are not administered effectively or efficiently. Very largely this situation arises because responsibilities have been assigned without any clear authority for the responsible agency or group to use in requiring agency compliance. The typical arrangements for coordination through lead agencies, interagency committees, and interagency agreements depend upon voluntary negotiations and compliance. Without anyone in an authoritative position with respect to such requirements, lead agencies and interagency committees have not compiled a record of uniform compliance, and in some cases, a deadlock has arisen with respect to developing interagency guidelines for administering these requirements. Furthermore when the executive office of the President has had lead responsibility without commensurate authority—through OMB or the Council on Environmental Quality—the record has been little better. Presidents up to now have not focused on these administrative inadequacies. However at least one example of success does stand out. Under the *Davis-Bacon Act*, The Labor Department has clear authority to establish and certify appropriate wage scales and to require compliance. In any program where this requirement applies, the federal administering agency must have Labor Department concurrence before the program can move ahead.

Interagency committees do have their advantages. They are excellent for providing multiple points of view and advice in developing workable administrative guidelines. However they serve to diffuse rather than to focus authority. They cannot be expected to be a substitute for the location of clear administrative authority in an agency head.

As shown in the Commission's research, no clear evidence exists that the administrative authority needed for effective compliance with across-the-board requirements depends upon its location within the administrative hierarchy. Although public administration principles would suggest that the executive office of the President should be in a better position to administer across-the-board requirements, research suggests that actual possession of administrative authority is more important than organization position. Thus without arbitrarily suggesting where administrative authority should exist for any given across-the-board requirement, the Commission does recommend that Congress or the President, in the case of both

existing and new requirements, provide unequivocally for some specifically identified unit to possess both the responsibility and the authority to issue uniform administrative guidelines and to require compliance. The uniform relocation requirement, which this Commission helped to create, is one that is badly in need of centralized administrative oversight.

On the other hand reason exists to believe that a central unit within the executive office of the President should inventory all of the generally applicable requirements and any overlaps, gaps, and conflicts among them. Such a unit could be relatively objective with respect to the purposes and procedures of any given requirement because of its lack of direct administrative involvement, and it would have a direct part to play in developing the President's legislative and budgetary programs where such overlaps, gaps, and conflicts could be dealt with effectively. Commission research has shown that multiple coordinative responsibilities exist in the environmental and nondiscrimination fields that offer potential for improvement through a Presidential overview and possible consolidation. The Office of Management and Budget is chosen as the logical organizational unit within the executive office of the President because of its involvement with budget and legislative program coordination and its ready access to the White House and other key units of the executive office. An example of what might be accomplished is the development and enactment of a standard (and less complex) "Uniform Citizen Participation Act" such as that called for in the *1976 Report of the President on National Growth and Development*.

With respect to the need for continuing efforts to simplify, evaluate, and consolidate generally applicable requirements, success in administering these requirements comes incrementally, and although efforts toward this success are being made, conditions change and understanding grows. This series of studies on the intergovernmental grant system has shown convincingly how the number and characteristics of federal grant programs have continued to change in major ways in recent years. Such changes can be expected to continue. Also the early years of major requirements, such as nondiscrimination or environmental protection, require different approaches than later periods of administration when techniques have become more routine and compliance has become accepted more generally. As the requirements mature, bringing greater success and modified approaches, continuing efforts are needed to realize new potential to simplify, consolidate, and

accept equivalent procedures provided by state law and normal practices of recipient governments. Without such continuing review and modification, the likelihood is great that across-the-board grant requirements will multiply, ramify, and become unduly burdensome, if not counterproductive.

Most legislation providing for generally applicable grant requirements is stated quite generally and probably is most appropriate because it provides for the administrative flexibility needed to meet unforeseen and changing enforcement situations. Yet this lack of legislative specificity leaves a substantial amount of discretion to administrative agencies and invites litigation in the courts. The dual questions that arise when responsible federal agencies attempt to develop regulations for the implementation of these laws are (1) how strictly and rapidly compliance should be sought and how harshly noncompliance should be dealt with, and (2) how much leeway should be given to achieve administrative workability, manageability, and feasibility.

Although the Commission obviously cannot give a direct answer about where the best balance might lie for any given requirement at any given time, it does believe that these administrative objectives are worthy of serious consideration. Common practice in individual grant programs for administration is geared to making steady progress toward the full achievement of requirements over a reasonable period of years, rather than requiring strict and total compliance in the program's first year. Immediate compliance simply cannot be achieved, and little purpose is served by using the ultimate enforcement weapon of withholding funds at such early stages. The Commission believes, therefore, that a reasonable approach is to apply this ratchet system to across-the-board requirements and to use benefit-cost or cost-effective techniques of analysis in considering how soon and how far administrative regulations should go. This approach allows positive targets for improved compliance to be established and monitored each year.

Some observers might argue, of course, that this type of thinking simply supplies a rationale for half-way measures and administrative footdragging. Although some truth may lie in such an argument in certain cases, steady pressures to increase continually the level of compliance up to reasonable limits can do much to disprove this contention.

Another way to streamline the administration of generally applicable grant requirements is for the federal government to accept the results of planning

and decisionmaking processes established under state law that are at least as demanding as the federal requirements. This "certification acceptance" technique might have particular applicability to requirements such as those for environmental protection, citizen participation, civil rights, and prevailing wage rates where states have enacted similar legislation. The technique relies upon mutual trust between the federal government and the grant recipient, plus auditing on a sample basis to help assure that recipient procedures really do provide compliance with the federal requirements.

Critics of this approach contend that compliance with state laws may not be as strictly enforced as compliance with federal laws, but where that is true the audit procedures should be adequate to indicate the facts, and the certification acceptance then could be cancelled by the federal government. Moreover this technique already is in effective use in some federal programs. The highway program is one example with substantial experience in this regard, and the Equal Employment Opportunities Commission estimated a shift by this means of 17,700 cases to certified state and local agencies in FY 1977.

The Commission believes that it is necessary to fund the added costs of generally applicable requirements in one way or another, because its research has shown that successful implementation of such requirements has been greatest where funds have been made available. Administrative as well as other costs are important. For example if the central federal enforcement agency is poorly staffed, compliance will be poor. On the other hand requirements for grant recipients to pay relocation costs and to make special project modifications to accommodate the handicapped can incur substantially greater costs than originally provided for in a project; these extra costs must be eligible for grant funds, and those grant funds should be available. On occasions when requirements have been imposed without the necessary funds, or without the necessary degree of commitment by grant recipients, compliance has been sought by adversely impacted clienteles in the courts. At that point the "extra funds" question must be resolved one way or another. The Commission believes that the federal government has a responsibility to use its superior resources to assist in such situations and that greater compliance and more routine program operations can be expected if such assistance is made readily available in the normal course of program admin-

istration. This position does not necessarily mean that all compliance costs should be paid by the federal government, but the financial arrangements worked out among responsible parties should be equitable and avoid undue financial hardships.

Finally, the Commission believes that many across-the-board requirements, as well as some requirements of individual programs, have become too complex for many smaller jurisdictions to comply with. In such cases not only financial assistance but also alternatives to burdensome expansions of recipient staffs should be readily available. One of the most feasible ways to accomplish this is intergovernmental contracting. Frequently recipient jurisdictions have used private consultants for this purpose, and occasionally they have contracted with other public bodies, such as a council of governments, a large local government, or a state agency. The Commission's recommendation to allow all these intergovernmental contracting options—as well as the option of contracting with a federal agency—is designed to take advantage of economies of scale, superior governmental expertise at higher levels, and opportunities to develop closer relationships among the various units and levels of government that share common needs and responsibilities. The Commission has recommended intergovernmental contracting authority on numerous occasions in general form but believes that highlighting it once again with respect to this particular set of activities where it could be particularly helpful is desirable. Although the portion of this recommendation dealing with contracting between federal aid recipients and federal agencies goes beyond the usual formulation of the Commission's intergovernmental contracting position, it is consistent with the Commission-supported *Intergovernmental Personnel Act of 1970*, which provides for personnel exchanges between federal agencies and units of government at the state and local levels.

The Commission views the proliferation of generally applicable grant requirements in the same way that it views the proliferation of excessive numbers of grant programs. Its research has found examples of overlap and administrative confusion as well as lack of compliance, and much of this is due to the complex and fragmented way in which such requirements have been enacted. The Commission wishes to emphasize that only demonstrably needed requirements of this type should be enacted and that present enactments should be thoroughly screened for opportunities to simplify and consoli-

date them. Much of the opposition to these requirements has arisen from the administrative difficulties in compliance, as well as from pressures for unduly harsh or rapid degrees of compliance. The Commission believes that reasonableness in seeking the desirable goals that such requirements represent will help to alleviate this opposition and ultimately will produce satisfactory results without creating undue intergovernmental burdens and conflicts.

FOOTNOTES

¹Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System* (A-31), Washington, DC, U.S. Government Printing Office, Vol. 1, 1967.

²See Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management* (A-53), Washington, DC, U.S. Government Printing Office, 1977.

³Advisory Commission on Intergovernmental Relations, *The Partnership for Health Act: Lessons from a Pioneering Block Grant* (A-56), Washington, DC, U.S. Government Printing Office, 1977, p. 100.

⁴See Advisory Commission on Intergovernmental Relations, *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials* (A-54), Washington, DC, U.S. Government Printing Office, 1977, Chapter II.

⁵Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management*, *op. cit.*

⁶Sen. William D. Hathaway supports the proposition that the President periodically ought to submit grant consolidation plans to Congress. However he is concerned that any structure for implementing such plans not alter constitutional separation of powers or undermine fundamental Congressional authority to legislate. Recommendation 4, by granting the President authority to propose detailed grant consolidation plans and by confining Congress to a position of either approving or disapproving such plans within a set period of time would, in Sen. Hathaway's view, reverse our current constitutional structure.

⁷Peat, Marwick, Mitchell and Co., *The Effects of Advance Funding Budgeting Upon State and Local Program Delivery*, Washington, DC, 1976, p. 5.

⁸Congressional Budget Office, U.S. Congress, *Advance Budgeting, A Report to the Congress*, 1977, p. 8.

⁹Henry Owen and Charles L. Schultze (eds.), *Setting National Priorities: The Next Ten Years*, Washington, DC, The Brookings Institution, 1976, p. 368.

¹⁰Advisory Commission on Intergovernmental Relations, *The Role of Equalization in Federal Grants* (A-19), Washington, DC, U.S. Government Printing Office, 1964, p. 79.

¹¹Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System* (A-31), Washington, DC, U.S. Government Printing Office, Vol. 1, 1967, p. 18.

¹²*Ibid.*, Vol. 2, pp. 23-26.

¹³Advisory Commission on Intergovernmental Relations, *The States and Intergovernmental Aids* (A-59), Washington, DC, U.S. Government Printing Office, 1977, p. 75.



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what is ACIR ?

The Advisory Commission on Intergovernmental Relations (ACIR) was created by the Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, state, and local government and the public.

The Commission is composed of 26 members—nine representing the Federal government, 14 representing state and local government, and three representing the public. The President appoints 20—three private citizens and three Federal executive officials directly and four governors, three state legislators, four mayors, and three elected county officials from slates nominated by the National Governors' Conference, the Council of State Governments, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Congressmen by the Speaker of the House.

Each Commission member serves a two year term and may be reappointed.

As a continuing body, the Commission approaches its work by addressing itself to specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with the all important functional and structural relationships among the various governments, the Commission has also extensively studied critical stresses currently being placed on traditional governmental taxing practices. One of the long range efforts of the Commission has been to seek ways to improve Federal, state, and local governmental taxing practices and policies to achieve equitable allocation of resources, increased efficiency in collection and administration, and reduced compliance burdens upon the taxpayers.

Studies undertaken by the Commission have dealt with subjects as diverse as transportation and as specific as state taxation of out-of-state depositories; as wide ranging as substate regionalism to the more specialized issue of local revenue diversification. In selecting items for the work program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

After selecting specific intergovernmental issues for investigation, ACIR follows a multistep procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts, and interested groups. The Commission then debates each issue and formulates its policy position. Commission findings and recommendations are published and draft bills and executive orders developed to assist in implementing ACIR policies.