

Chapter III.

Grants-Phenomenon In Modern Political Systems : U.S.A.

"Almost all federations provide for grants-in-aid"⁽¹⁾.

The importance of grants-in-aid is well recognised in the federal political systems of the world as a device to rectify the imbalance generally caused as a result of non-correspondence between resources and functions of the component units.

"Grants-in-aid has now become an increasingly common phenomenon in almost all federal systems. It is basically a fiscal

instrument to strengthen the declining resource-base of the constituent units of a federation"⁽²⁾, says an author on this subject. For convenience of this study, it is prudent to make

a general review of the systems of federal grants-in-aid prevalent in three major political systems viz., the U.S.A., Canada and Australia, since "The impact of American, Canadian and Australian systems on the framing of the grants provisions in the Indian Constitution can not be ignored"⁽³⁾. That

federal financial relations developed in the U.S.A., Canada and Australia is "highly instructive"⁽⁴⁾ for India has also

been recognised by person like B.N.Ganguly. S.P.Aiyar has found it necessary to show whether grants-in-aid have gone so far as to affect federalism in America, Canada and Australia - where the roles of federal aid are more explicit than

elsewhere.⁽⁵⁾

If a question is put as to whether the present system of grants-in-aid in India conforms to the best interests of the land under existing circumstances, a straight answer may be difficult to formulate. At best, one could put forward a tentative hypothesis that the nature and forms of grants-in-aid in any country, depend on the particular historical and political situations obtained therein. If this could be empirically verified in the light of the experiences of the leading federations - one may be in a position to draw some inferences applicable to the Indian context.

Over the past century, federal grants have emerged as a major factor in fiscal relationships within the federal system of the United States. "Perhaps in no other Country with a federal constitution have grants-in-aid played so great a role in balancing the financial position of the various units of government as in the United States".⁽⁶⁾

Different causes may be held responsible for this.

"Industrialization and urbanization placed new responsibilities upon the State and local governments. The mass unemployment that followed the great industrial expansion of the United States, the new problems of public health and sanitation that resulted from the congested conditions of the new towns, and finally, the devastating Depression of the 1930's proved the inability of the States and local governments to assume new

responsibilities that were formerly within their purview. The New Deal under President Roosevelt gave recognition to this change. Most important among such new responsibilities have been in highway construction and maintenance, education, agricultural research, training and experimentation, public assistance and welfare, health, conservation and housing".⁽⁷⁾ Historically, as the territories obtained statehood, a part of the proceeds from the sale of public lands were distributed to the states. After 1803, millions of acres of land were distributed to the States, at first for road construction and later to endow public schools and establish land grant Colleges.⁽⁸⁾

The time-honoured instrument of fiscal federalism - grants-in-aid to state and local governments - "is almost as old as the Union itself".⁽⁹⁾ When this device first cropped up, none could perhaps imagine that it might at anytime be the basis of such supervision which the Central Government now exercised over the States. "It was only when the Morrill Act was on the legislative anvil on the eve of the civil war that the danger of the federal grant to the sovereignty of the States was first perceived. Grant of land had been made to the States since the beginning of the American federation. In fact it was four years before the federation was started on its career that the practice had began. In 1785 the Congress of the confederation granted land subsidy to the component States for

the maintenance of schools. The practice thus inaugurated by the confederation was taken over by the new Union. In 1802 the precedent created by confederation was followed by the federal Govt. which granted land to the state of Ohio for educational purposes. Since then almost every State admitted into the federation was given sufficient land for its schools. Besides this grant of land, money grants also were made to the States on occasions, even in the first half of the last century. In 1837 for instance twenty million dollars - a surplus in the United States Treasury - were distributed among the states in proportion to their congressional representation".⁽¹⁰⁾

Despite a number of land-grants and money-grants made to the States in the first half of the Nineteenth century, "it was the Morrill Act passed by the congress in 1862, which might be regarded as the foundation of grants-in-aid system of today"⁽¹¹⁾ although scholars such as Morton Grodzins and Daniel Elazar do not agree as to which of the early measures marks the beginning of the system of federal grants, but they admit along with others that by 1887, when Hatch Act grants of cash for agricultural experiment stations began, the practice of requiring each state to submit annual report on the use of federal funds was definitely established.⁽¹²⁾

The Morrill Act was passed by the Congress "in order that the

agricultural and mechanical colleges in the States might be financially assisted by the Federal Govt. by grant of land. This grant, which was provided for by this Act, was virtually to be an unconditional one",⁽¹³⁾ because "apart from the obligation to supply annual information to the congress, the authorities of the states were not subjects to any control on the part of the Central Government which made the grant."⁽¹⁴⁾ The draft of the Morrill Act, introduced by Justin Morrill in the House of Representatives in 1857, provided for the distribution of public lands among different states in porportion to their population and it was vehemently opposed by the members from the South, who regarded the bill with suspicion as they thought that its provisions would augment Central authority at the expense of the States.⁽¹⁵⁾ Despite this opposition the bill was passed by both the Houses but President Buchanan vetoed it in response to demands from the South.⁽¹⁶⁾ But it was reintroduced in the Congress in 1861 and became an Act in the following year.⁽¹⁷⁾

"Twenty-five years later, another Act was passed by the congress in 1887 (Hatch Act), which provided that Fifteen Thousand dollars would be appropriated for each state in order that an experiment station might be set up and maintained in each agricultural college established under the Morrill Act of 1862. It is true that the States were not required even by

this Act to fulfill any conditions worth the name in order to make themselves eligible for the grant. But it is significant that the state experiment stations which were to receive federal funds, might be properly supervised by this agency of the Federal Government".⁽¹⁸⁾ Thereafter federal grants to states increased in scope and extent although the sum involved was not in anyway phenomenal as compared to its present magnitude. "The Weeks Act of 1911 provided grants for forest fire protection that were conditional on federal approval of State plans for the use of funds and federal supervision was initiated to insure compliance. The inclusion of conditions to insure that the funds be used for the purpose intended has become the hallmark of the categorical grant-in-aid".⁽¹⁹⁾ Of the conditions for offering grants laid down in the Weeks Act first and foremost was that the states would make an appropriation of a sum which must be equal to that received from the Federal Govt. (i.e., matching condition)".⁽²⁰⁾ Second condition was that the programme of work for which grant would be sought must conform to the federal regulations and would receive approval of the federal officials.⁽²¹⁾ In the third place, the States must allow the federal officials to inspect federally aided works.⁽²²⁾ These provisions of the Weeks Act had become the sheet anchor of the system of federal grants-in-aid in the United States and none can deny its impact on the same field even today.⁽²³⁾

Of the three-tier system of grants in the U.S.A., viz., federal grants to states, state-grants to local government and federal grants to local bodies, the first one generally takes the form of appropriation of a definite sum to a state by Congressional enactment for specific purposes on the basis of service needs. (24)

"Regarding the basis of allocation, there have been changes in emphasis on the principles that govern such grants. Till 1929, the basic consideration for aid to a state was stimulation of activity in the State. Little consideration was given to other factors. This was soon replaced by a policy based on the principle of equalization of resources of the various units Today more importance is being given to such factor as the population of the state, its financial stability and fiscal capacity measured by its per capita income and the nature and proportion of its debt burden". (25)

"With the major new source of revenue available to the national government, and a President (Woodrow Wilson) and Congress willing and able to involve the national government more extensively in the economy than their predecessors had been, federal grant-in-aid expenditure increased from some \$ 5 million in 1912 to almost \$ 34 million in 1920". (26) The federal aid for highway construction introduced in 1916 was responsible for the first important swelling of grants, because the amount of grant which was only eleven million dollars in 1911 swelled

nearly to one hundred and fifty million in 1930. ⁽²⁷⁾ Although the Republican administrations of 1920's and early 1930s continued and improved the existing federal grant-in-aid programme, no significant start, however, were made during the twelve years between the Wilson and Roosevelt terms. ⁽²⁸⁾

The New Deal ushered in a different era in grant-in-aid programmes and "during the period from 1932 to 1939, grant-in-aid expenditure swelled from some \$ 200 millions to almost \$ 3 billion". ⁽²⁹⁾

"In the Depression decade of 1930s the Federal Government launched a wide range of new welfare and economic security programme. These were designed not only to help individuals but also to alleviate the intense pressure on shrunken state and local resources. Other measures were inaugurated to provide low-rent public housing and improve health services. Many of these grants especially those authorized by the social security Act of 1935, provided for extensive administrative supervision by the National Government, including the requirement, added in 1939, that state and local personnel participating in Federally aided programmes of health, welfare and employment security be selected and administered under a merit system of personnel administration. About a half dozen of the Depression-born grant programmes that provided emergency relief of various kinds to States and localities expired in the late thirties and early forties. Seventeen of the presently existing basic grant categories, however, were enacted between

1933 and 1944". (30) The outbreak of World War II brought a temporary decline in federal grant-in-aid programmes as the national government harboured its resources for military necessities. Beginning in 1948, grants expenditures began to rise again, but it was not until 1954 that they reached their pre-war level. (31) "In 1950s Federal aid for municipal sewage treatment plant construction was began. In the 1960s major steps have been taken to broaden elementary, secondary and higher educational opportunities; to develop economically depressed areas; to help finance health services and medical care for the indigent; to launch a 'war on poverty'; and in 1966, to inaugurate a comprehensive physical, social and economic programme to transform slum and blight-ridden cities into model neighbourhoods. Few new grants were began in 1967, but a new grant-in-aid programme to assist State Departments of Agriculture in the inspection of meat products is being initiated." (32) The decade of 1960s witnessed a major surge in federal aid programmes similar to that of the 1930s, whereby grants more than quadrupled, from some \$ 7 millions to over \$ 30 millions in the period from 1961 to 1971. (33) The cumulative effect of grant programmes has been to place the principal emphasis of federal aid on health, labour and welfare activities - as well as to give added impetus to education and housing and community development efforts and in 1968, it is estimated that these programmes will account for two-thirds of total estimated aid payments. (34) Before 1960s, the typical

grant-in-aid programmes were not used to resolve problems of national concern but were established to help State or local governments accomplish their respective objectives and for all practical purposes, the policy-making decisions that the grant-in-aid implemented remained, before 1960, where they had before assistance was provided, that is, with State and local government. (35) But grant-in-aid programmes that emerged in the 1960s were designed to enable the federal government to achieve its own objectives as defined by Congress and thus the motivating force was federal, with the states and local bodies assisting federal efforts rather than the reverse - only as a matter of administrative convenience did the federal government execute programmes through State and local governments rather than through its administrative structures. (36)

"There is no gainsaying the fact that as a result of the development of the grant-in-aid system the balance of power between federation and the states has been appreciably weighted in favour of the Federal Government". (37) As a consequence of co-existence of two phenomena - the proliferation of grant programmes and fiscal crisis at state and local levels- federal-state relations in regard to the distribution of federal aid have become tense. (38) A major

issue that has caused attack on the grant system as an instrument of federal-state fiscal relations is a "growing concern over the ever-increasing outreach of the federal octopus into states".⁽³⁹⁾ This issue, is linked up with the age-old debate between state's rights and federal control and a justification for this concern may be made when one observes how, over a long period of time, federal assistance, as part of the total revenue of states and local governments, has gradually increased. "In 1916, the U.S. Congress enacted the Aid to Highway act which in the next few years accounted for nearly 68 percent of the total federal grants. By 1930s, federal grants were supporting only ten programs which totalled only \$ 0.1 billion and constituted only slightly more than one per cent of the total income of the local and state governments. This situation was radically transformed by the Great Depression Many states were on the verge of bankruptcy. The federal government stepped into the breach. The peak of the federal expenditure on welfare and relief was reached in 1939 when \$ 2.9 billion were spent. Sixty percent of this amount was spent on emergency relief. During the war years the expenditure on relief and welfare declined sharply as employment rose. In the post-war years, federal assistance to states and local governments again began to grow. In 1946, the federal government spent \$.09 billion on grants which constituted 6 per cent of expenditure

of state and local governments. In 1975, it is estimated to constitute 24.7 per cent of the total federal outlays on domestic programs and 22.4 per cent of the State and local expenditure".⁽⁴⁰⁾ The table below will give the idea of the massive growth of federal aid in the U.S. federal system in recent times :

Table: S.1.

Impact of Federal Aid outlays on Governmental Expenditure (Selected years).

Fiscal Year.	Amount (Million) dollars.	Federal Aid As percent of	
		Domestic Federal Outlays.	State local expenditure.
1959	6,669	15.9	13.9
1960	7,040	16.4	13.5
1965	10,904	18.4	14.6
1970	23,954	21.9	18.3
1971	29,844	23.5	19.8
1972	35,840	24.5	21.5
1973	43,963	26.8	23.5
1974 est.	48,293	25.8	23.3
1975 est.	51,732	24.7	22.4

Source: Special Analyses : Budget of the U.S. Government, Fiscal year 1975, Washington D.C., Office of Management & Budget, P.207, ^{cited in} "Trends in

Inter-governmental Fiscal Relations in the United States", in "Federal Financial Relations in India", Reprinted from Journal of Constitutional and Parliamentary Studies, Vol.VIII, No.4, Oct.-Dec.,1974, New Delhi, P.170.

Responding to a steadily expanding national concern for the provision for new governmental services and the improvement or expansion of services traditionally provided by state and local governments, categorical grants have grown steadily in terms of programmes affected, expenditures and the proportion of the national budget. ⁽⁴¹⁾ "The categorical grant has been and is the predominant type of federal intergovernmental transfers. It has enjoyed a perennial popularity; demonstrated its usefulness in coping with rural, depression-rooted and urban problems; and has clearly indicated its compatibility with the decentralized, open-access, pragmatic and pluralistic features of American political system - especially as they are manifested in the Congress". ⁽⁴²⁾

The increasing role of grants in the U.S. political system necessarily provokes one to know the nature and scope of grants-in-aid there and ascertain what effects it has on the functioning of the intergovernmental relations.

The Advisory Commission on Intergovernmental

Relations, in its Report of 1967 defines Federal grants-in-aid as "money paid or furnished to State or local governments to be used for specified purposes (categories), subject to conditions spelled out in statute or administrative regulations".⁽⁴³⁾ Generally excluded from this definition are "(a) shared revenues, (b) payments of taxes or in lieu of taxes, loans or repayable advances, and (d) payments for contractual services rendered by State or local government to the National Government".⁽⁴⁴⁾

Grants-in-aid in the U.S. federal system are either formula or project grants. The former are distributed to all State (or indirectly to local) governments in accordance with a formula written into the enacting law and the recipients are entitled to these grants as a matter of 'right', subject to the ceiling or upper-limit of money.⁽⁴⁵⁾ While project grants (grants to meet specific problems) are not necessarily distributed uniformly among all the states.⁽⁴⁶⁾ Eligible jurisdictions are specified, but the states must take the initiative in applying for the grant.⁽⁴⁷⁾ "Subject to legislative guidelines, and within funding limitations, Federal administrators use their judgement in making project grants, e.g., urban renewal grants or Neighbourhood Youth corps contracts. The funds appropriated for each program are usually small, which places a further premium on state and

local initiative in requesting the funds and following up on applications".⁽⁴⁸⁾

Both formula and project grants usually contain matching requirements. All of the formula and a few of the project grants also include formulas for apportionment of available amounts among the states and localities. Sometimes apportionment formula contains a factor for equalizing the grants among the recipients on the basis of need (such as population) or fiscal capacity (usually per capita personal income). Matching or cost-sharing requirements, again, may be variable matching, reflecting different abilities of the State or local recipient to support their aided functions and fixed ration matching under which each recipient is required to share the same proportion of program costs.⁽⁴⁹⁾

Categorical grants are generally made for narrowly circumscribed purposes determined by the Congress to be of national concern, as for example, sewage treatment facilities and old age assistance. In contrast to this, are block-grants, which are either unconditional fiscal grants to a specified level of governments, or grants restricted to a broad programme purpose, such as, education and welfare.⁽⁵⁰⁾

Because of criticism that categorical grants

impose too many requirements there are frequent proposals for shifting to block-grants - simply allocating sums of money to the States or localities to use for whatever purposes they wish. (51) "Recent discussion culminated in a proposal by President Nixon for the establishment at some future time of revenue-sharing, a plan by which a given percentage of national revenues is automatically distributed to the States to use not only as they wish but also without reporting and auditing requirements. The stated purpose is to strengthen State and local governments helping to shift the balance away from national preeminence". (52) Many people, however, fear that such a system would result in financial irresponsibility in some states. (53)

The major fiscal argument for revenue-sharing as differentiated from grants-in-aid is that the general operation of state and local governments is as much in need of financial support as are the specific services embodied in the categories of existing aid programmes. State and local governments are suffering from fiscal pains that seem to grow more acute as time passes. (54)

Federal expenditure in the united states in the post-war years have been dominated by the spending on

defence-oriented items. In the mid-sixties the fiscal predicament of States and local governments reached crisis proportion. Between 1960 and 1970, the revenue of the states grew at the rate of 9.6 per cent while the gross national product rose at the rate of 6.8 per cent. The condition of the poor states was acute. The states had either to levy new taxes or raise the rate of the old ones. In order to raise their revenue poor states had to make greater effort in comparison with the more affluent states. The burden was heavier on the lower income group in such States. Despite these efforts the expenditure of the States rose at a faster rate than their revenue. The federal government tried to lessen the impact of the crisis by expanding its assistance to State and local governments. The expansion in assistance was particularly rapid in the mid-sixties. (55)

The fiscal crises of the States and local governments was further aggravated by the proliferation of the federally assisted programs. The matching requirements of programs like welfare, medicaid and the cost of running public education was driving many states to near bankruptcy. They were left with inadequate resources to meet growing demand on their services. The states and local governments could not resolve their fiscal crises by resorting to higher taxes because of stronger resistance from the public, who were voting down proposals for new or higher taxes or new bond issue. (56)

Against this background revenue sharing was advocated as one of the solutions to this growing fiscal turmoil. "As formulated by Walter Heller, former Chairman of the Council of Economic Advisors in the Kennedy and Johnson Administrations and Joseph A. Pechman, Director of Economic Studies in Brookings Institution at Washington, D.C., the proposal received wide acclamation. The Heller-Pechman plan recommended that the federal government would set aside a sum, which was eventually to reach two per cent of the tax base (the amount reported as net taxable income by all individuals) and distribute it among the States. The distribution was to be on the basis of population and the tax effort of the states. In order to ensure that the States would transfer an adequate percentage of these funds to the local governments, the plan provided pass-through provisions. Similarly, the plan recommended non-discrimination as the necessary condition of the grant. The funds given to the States under the revenue sharing plan could be used at the discretion of the states and local authorities".⁽⁵⁷⁾

President Nixon, in 1969, proposed revenue-sharing as a key element in his concept of New Federalism, which he claimed was based on the idea of decentralization of governmental power by giving new power and sources of revenue to state and local governments and started insisting on its adoption by the Congress.⁽⁵⁸⁾

The critics of Nixon Administration in the Congress, however, did not consider revenue sharing proposal as sound and significant and for them it was no more than a thing like unconditional grant system, which threatened the existing system of categorical and conditional grants. (59) After a prolonged battle in the committees, the Congress eventually passed the State and Local Fiscal Assistance Act of 1972, which provided for the distribution of \$ 30.2 billion over a five-year period and the Act was to be automatically extended instead of being renewed from year to year. (60) By mid-1974, when the general revenue-sharing had reached the mid-way point of the stipulated five-years term, a sharp dissension of opinion among the members of the Advisory Commission on Inter-Governmental Relations was evident. (61) The critics of the plan charged that the revenue-sharing had failed to pep up local participation in designing programs and divisions were also reported on the form of revenue-sharing in future. (62) In the meantime, in the fiscal year 1973, federal assistance as the percentage of federal outlays on domestic programs was highest and in the estimated budget for 1974 and 1975, federal outlays as assistance continued to rise although there was a slight decline in it as the percentage of the total federal expenditure on domestic programs and of the State and local expenditure. (63) "The amount of assistance was ... large and still constituted a very significant percentage of the

state and local expenditure". (64)

The utility and significance of grants-system in the U.S. political process do not seem to come to an end in the near future. Because "unquestionably, there are national needs whose solutions urgently require increases in federal aid". (65) To a celebrated author in this field, "Revenue-sharing is not a self-evident proposition; Compared to the existing federal grant-in-aid programs, revenue-sharing is much less redistributive. The existing grant programs are redistributive because grants are generally awarded on the basis of some criteria of need. The shared revenue on the other hand, is distributed to states and cities on the basis of population and tax effort. This means that wealthier States (in terms of per capita income) benefit more than poorer states. In addition, it is doubtful that all the money that is received by richer States will end up in the hands of the neediest citizens...." (66)

Turning to the question of federal aid, it may be said that the evolution of categorical grants system in the United States indicates that it has grown as a consequence of Congressional determination "(1) that the achievement of certain specific national objectives requires

An Economic
Justification of
Categorical Grants.

additional public expenditures, (2) that these expenditures should be made through the State and local governments rather than directly by the National Government, and (3) that State and local governments lack the resources or motivation to make them own their own".⁽⁶⁷⁾ In its review of inter-governmental fiscal relations the (Kestnbaum Commission, 1955) Commission on Inter-governmental Relations attempted to establish some clear guidelines for Congress to consider when making its decisions to use the categorical grants. In brief, these are : that a grant should be made or continued only for a clearly indicated and presently important national objective; that where national participation in an activity is determined to be desirable, the grant-in-aid should be employed only when it ~~is~~ is found to be the most suitable form of national participation; and, that once it is decided that a grant-in-aid should be made, the grant should be carefully designed to achieve its specified objective.⁽⁶⁸⁾

"Economists, however, offer a conceptual framework for determining a "clearly indicated and presently important national objective". This approach is based on the fact that provision of certain public services by State and local governments produces "spillovers of costs and benefits to neighbouring jurisdictions".⁽⁶⁹⁾ "Two kinds of benefits

arise from government spending programs : those which flow directly to specific individuals, called private benefits, and those which accrue broadly to society as a whole, called social benefits. Both of these become 'spillover' benefits whenever they are enjoyed by persons outside of the government jurisdiction that generated them. When this happens, local voters, lacking any financial contribution from outside beneficiaries, are likely to undersupport the programs in question. Thus the community has the choice of inequitably bearing the cost of benefits provided others, or of doing without a necessary public service, with consequent damage to the local economy. A grant-in-aid compensates for these external benefits in one way of avoiding fiscal inequity or insufficiency".⁽⁷⁰⁾

"Public education provides a good illustration of spillover benefits. First, some of the most important of all educational benefits - accrue broadly to everyone in the country. Second, certain educational benefits are private in nature, but these accrue to outsiders as well as insiders - in short - to anyone who associates in one way or another with the person who is educated. A third kind of external education benefit results from our multiple level system of government. Citizens receiving a better education produce more goods and services and earn higher personal

incomes than they would have otherwise. Taxation then diverts some of this extra buying power to all three levels of government and through them redistributes it to people in other jurisdictions".⁽⁷¹⁾

Spillover costs likewise affect equity and efficiency of economy. Poorly educated persons who move, cause increased welfare costs in their new place of residence.⁽⁷²⁾ It is well recognised that spillover benefits and costs exist and must be considered when financing various functional programs. "It can be argued, moreover, that spillovers justify categorical grants, as distinguished from block grants, because spillovers vary widely among individual functional categories and the categorical approach facilitates selective treatment of these separate spillovers".⁽⁷³⁾

The most striking characteristic of the recent trend in the grant-in-aid system is "proliferation and excessive categorization".⁽⁷⁴⁾ From the point of view of grant recipients - State and local governments - the sheer number, variety and complexity of grants make it all but impossible for eligible recipients to be fully aware of what aids are available, which federal agencies administer them, and how they suit particular needs.⁽⁷⁵⁾ A major

complaint of State and local governments is concerning this information gap.

Table: 3.2.

Number of Grants-in-Aid Authorizations.

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

Source: Report of the Advisory Commission On Inter-Governmental Relations, "Fiscal Balance in the American Federal System", Vol.1, Oct., 1967, Washington D.C., P.151.

Many consultants are available at Washington whose business it is to keep the state and local authorities informed on available grant programs and help their clients

in applying for them and thus "Grantsmanship" has become a popular new game in Washington, played most effectively by alert State and local governments. Moreover, the multiplication of grants is underscored dramatically by the large number of catalogs of available grants that have been assembled by Federal agencies, national and State associations of public officials and private firms, none of which is perhaps comprehensive. The Advisory Commission on Intergovernmental Relations compiled a "catalog of catalogs" in 1966 in an attempt to present a bibliography of information sources on this which along with its first supplement ran to Eighteen pages. (76)

"Excessive categorization and overlapping of grants create administrative problems at all levels and handicap the development of coordinated attack on community problems. Operating agencies at the state and local levels usually are reasonably capable of keeping track of grant programs in their functional fields. Information available to chief executives may be very limited, however, making it difficult for them to fulfill their overall coordinating responsibilities". (77)

At the end of 1966, 280 or three-quarters of the 379 grants-in-aid programs in effect in the U.S.A. were of the 'project' type. This may be compared with 107 or two-thirds of such programs that prevailed at the end of ...102...

1962. Thus project grants represent a sizable majority of the total, and the proportion is on the increase. In dollar amounts, however, this type of grant amounted to only \$ 2.8 billion of the total \$ 12.6 billion for the financial year 1966.⁽⁷⁸⁾

The project grant has been used extensively in grants to urban areas. To some extent this trend reflects the direct Federal-local nature of urban grants, bypassing the State which traditionally has been the geographic and political base for allocation of formula grants. Partly, it reflects the fact that certain types of urban grants place great stress on local initiative and local sensing of needs which do not lend themselves to simple reflection in a formula. In part, however, it also indicates a failure to try to develop adequate measures of program need and fiscal capacity which are suitable for formulas for distributing funds among individual localities, and a failure by congress to appropriate sufficient funds to meet the nationwide need.⁽⁷⁹⁾

"The increasing reliance on project grants has important implications for the grants-in-aid system. It tends to diminish the national government's certainty that Federal Funds are being applied most effectively to meet

nationally determined minimum requirements throughout the country. First, Congress leaves it to administrators to apply such distribution formulas, sometimes pursuant to legislative guidelines, imposing heavy pressure on administrators to weigh both program and political considerations in their decisions. Second, it places a premium upon the ability of applicants to know what aids are available, to prepare persuasive applications, and to expend the necessary efforts in following through to see that grants are forthcoming. By and large, this means that the State and local governments that are well organized and staffed will win the project grants. Yet they may have a relatively low index of need for the projects, or have a relatively high index of fiscal capacity with which to meet the need".⁽⁸⁰⁾

The Advisory Commission on Inter-governmental Relations is of the opinion that placing reliance on State and local governments to exert themselves to obtain Federal grant money is an inevitable part of a system of shared powers and since unlike a unitary system, the Federal system gives value to local initiative and discretion, it is not unnatural that some units will fall behind others in their zeal and ability to obtain federal grants.⁽⁸¹⁾

It is customarily required that the grant match the grant with their own funds, on a fifty basis although other

national government wants to be sure that the States are
genuinely interested in providing
the particular service and will use
the money wisely and carefully.

Variety in
"Matching".

Such grants are known as matching or conditional grants.
Since national government commonly requires report and audits,
it can set conditions specifying minimum standards for
service and qualifications of the personnel administering the
program.
(82)

Hand-in-hand with the multiplication of federal
grant programs has been a widening variation in federal
matching ratios employed. The early grant programs were
designed for equal sharing between the Federal and State
Governments. Since the 1930's, however, especially since
the World War II, grants often have built-in-equalization-type
formulas, with funds apportioned on the basis of program-need
and financial ability. Matching, thus, is in direct relation
to State's and local governments' varying ability to support
in aided functions. Variable matching requirements for these
programs are often based on the assumption that for all States
combined the Federal contribution will approximate one-half
of the program cost. In these cases, minimum and maximum
percentages are provided, typically ranging from one-third to
two-thirds of total program cost as the Federal share.
(83)

"When Congress decided to increase the Federal share and depart from the traditional 50-50 sharing basis without variable matching, it may have sought to place a high priority on achievement of a particular national objective. The largest grant program - the inter-state highway program enacted in 1956 - was the first major departure of this kind. Its purpose was to underwrite construction of a national defence network of major roads connecting populous urban centers. More recently, Title I of the Elementary and Secondary Education Act (1965) provides unmatched grants (100 percent Federal) to local school districts for promoting educational services for culturally disadvantaged children. Grants for economic development (1965) may cover up to 80 percent of the cost of projects in areas of serious unemployment and general economic distress".⁽⁸⁴⁾

Again, different levels of participation by the Federal government also can reflect different policy purposes of grants, i.e., whether they are intended to stimulate State and local entry into or expansion of certain services; to provide continuing support of a function which the national government may have helped to bring into being but which the State and local governments can now largely finance; or to finance pilot or demonstration projects. Continuing support grants are likely to receive a lesser level of Federal money than the other two.⁽⁸⁵⁾

For the present wide array of matching ratios reasons which are generally accounted for among others, are authorization of programs by separate functional committees of Congress without overall machinery or policy for a consistent approach, and similar shortcomings at the top management level in the executive branch, especially, in the Bureau of Budget, as regards procedures and guidelines for logically based and interrelated matching ratios, in administrative proposals for legislation. (86)

It is not always clear whether the present ratios properly represent actual differences in national interest in the various programs. Again, lack of proper coordination among interrelated programs is specially evident. When related programs are administered by different local agencies and are supported by varying amounts of Federal dollars for each non-Federal dollar, the problems of working out effective coordination become even more difficult. For programs not so closely interrelated, state and local governments and the general public find it hard to understand widely varying formulas. Furthermore, present variations in matching ratios have effects on state and local expenditure decisions. State and local governments are induced to spend more of their resources on those programs with higher Federal matching. They tend to go for the

'easy money'. Particularly when combined with the ~~and~~ similar effect of apportionment formulas, this can lead to a 'skewing' of state and local budgets-away from an expenditure pattern they would otherwise prefer. (87)

The 'national policy' involved in any grant consists of seeing that a particular activity is performed and that is determined by Congress. The selection of State activities to be aided is, to be sure, a question which may be determined by the free play of political forces. Nevertheless, a premium is placed on pressure in the designation of functions to be aided. The form in which the federal policy is expressed ultimately fixes the task of current administration. The basic element in Congressional policy is the definition of the service to be aided. In all federal-aid acts, Congress has determined with some precision the scope of the activity which it desires to subsidize. In some instances congress lays down directions with reference to the qualitative aspects of the activity to be aided. Thus unemployment compensation legislation, to meet the conditions of the federal act, must provide methods of administration "reasonably calculated to insure full payment of unemployment compensation when due". These qualitative standards, although usually vague, are, nevertheless, of great importance. (88)

Federal control of state action is, in essence, the control which comes from earmarking appropriations, the most significant aspect of Congressional policy in this respect is the determination that a particular service shall be performed on a nationwide scale, e.g., that there shall be a system of old age assistance, that there shall be system of vocational education etc.. (89)

The system of narrow, earmarked grants tend to create inflexibility within the States. The Congressional earmarkings with their matching provisions tend to limit the adjustments which the states may make in their programs of activities, and hence to restrict their ability to meet new problems. The federal aid system divides the problem as to how the public interest may best be determined and reflected in the programs of public expenditure between Congress and the State legislatures. Congress attempts to single out narrow fields which it clothes with a national interest. The State legislatures in turn are bound to a degree by the determinations of Congress. Which can most accurately reflect the public interest? In defining federal policy Congress is bound to lay down a uniform rule for the entire country. The question may well be raised whether federal assistance to broader spheres of activity would permit a more accurate reflection of the public interest through the range

of adaptability developed upon the States. Such a policy, however, would have to be followed with adequate administrative controls to assure that the federal grant was used for definite and substantial purposes, although these purposes may vary, within a fixed broad range, from State to State. In some cases, of course, the national interest might be so unequivocal that a narrow statutory policy could be justified.
(90)

A basic feature of categorical grants-in-aid in the U.S. federal system is that prescribed conditions must be met if the applicant is to get a grant.

Incentive Grants. In recent years a different approach has sometimes been used to encourage State and local governments to exceed minimum levels of program performance. The incentive grant rewards the recipient with more Federal money if it meets a standard or a degree of participation considered desirable, although not so urgent as to be required. The Water Pollution Control Act, for example, has offered incentives for sewage treatment construction works grants since its enactment in 1956. Major changes were made in 1965 and 1966 and the act now provides that the Federal share limitation of 30 per cent shall be increased to a maximum of 40 percent if the State agrees to

pay not less than 30 percent of the cost. Further the Federal share can be increased to as much as 50 percent if the State pays at least 25 percent and if enforceable water quality standards have been established for both interstate and intrastate waters into which the project discharges. The basic grant can be increased by 10 percent if the aided project conforms with an areawise comprehensive plan. (91)

The typical grant-in-aid in the U.S. federal system, as the term 'categorical' implies, "is directed at a rather narrow objective. Yet recently, programs have been developed with broader objectives, ranging across the functional lines that traditionally separate the grant-administering agencies. This represents a 'systems' approach-viewing problems in their totality rather than attacking their components separately. Such programs may involve a 'packaging' of activities affecting a single geographic area, such as under the Appalachian Regional Commission, the Public Works and Economic Development Act, and the Model Cities Act, or activities affecting a particular clientele group, such as the community action program". (92)

Multi-Functional
Grant Programs.

One of the earliest was the area

re-development program, which provided Federal assistance to areas with substantial and persistent unemployment over an extended period of time. To qualify for benefits under the act, an applicant was required to submit and have approved by the Secretary of Commerce and overall program for the economic development of the area. Types of assistance available to State and local governments for carrying out the overall program included planning grants; urban renewal grants; public facility grants and loans; Federal participation with State, local, or semi-public sources in industrial or commercial loans; occupational training or retraining programs; and technical assistance. The public works and Economic development program, which superseded the area redevelopment program, provides a generally similar grouping of existing grants for application to the development area. In addition, economic development projects of broader geographic significance may be planned and carried out through 'economic development districts' and 'economic development centers'⁽⁹³⁾.

Federal grants started out exclusively as payments to States, sometimes with redistribution to local units. Grants now increasingly go directly to local governments and to private individuals and institutions. Beginning with the low-rent public housing program in 1937, there has been a

Diversification
of Grants.

growing tendency to make grants directly to local units - a system generally termed as 'direct federalism'. The Bureau of the Census reports show that from 1944 to 1965 direct federal grants to local governments rose from \$ 53 million to \$ 1,155 million. Again, while grants to local governments bypass states and grants to special purpose districts and authorities bypass general purpose units of local government, a third category of grants bypasses both State and local governments. These are grants to individuals of specialized public agencies such as Universities and official public groups. Such grants - which have been described as a manifestation of 'private federalism' are of the project type and are for the attainment of specific purpose. (94)

Inflexibility of Federal administrative and fiscal requirements is one of the most common criticisms of the expanding grants-in-aid system in the U.S.A., particularly by State and local officials. Federal requirements for specific forms of organization of State and local governments to comply with Federal grants regulations has seriously hampered the flexibility of State and local organization structure. (95) The 'single State agency' requirement is one of the most frequently criticised

Administrative
and Fiscal
Requirements.

administrative standards. It requires either that a 'single state agency' must be named to administer or supervise a grant-in-aid program or that a State agency be named as the 'sole agency' for this purpose. This is charged to be a major deterrent to the integrated functioning of the grant administering organisations at the State and local levels. (96)

Fiscal reporting and accounting requirements have also contributed to tension in the administration of grant programs. In a survey conducted by the Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations, it was evident from the views of the respondents that variations among Federal agency requirements and differences between Federal and State requirements for the accounting of grant funds and the reporting of expenditures have caused difficulties in administering grants and legislation designed to enable uniform accounting and audit programs for grants-in-aid was preferred. (97)

The number and variety of requirements for planning as a condition of grants-in-aid have expanded markedly in recent years. Among 61 Planning Requirements, planning requirements enacted between 1960 and 1966, 43 call for State plans. Of the remaining 18 program with planning requirements enacted

after 1960, six call for project plans, one requires both State plans and project plans. The remaining 11 do not require State or project plan, but stipulate that the aided project be in conformity with an areawide comprehensive plan (e.g. urban beautification etc.) or, with both an areawide comprehensive plan and areawide functional plan (e.g., open space land preservation etc.).⁽⁹²⁾

Federal Machinery For Grants-in-Aid. In recent years there have been some improvements in the National Government's determination and action to bring order to the burgeoning categorical grants-in-aid system and to reduce the inter-governmental frictions that it has engendered. Mention may be made of : (a) the President's assignment of the Vice-President and the Director of the office of Emergency Planning to the task of maintaining close communication with chief executives of State and local governments; (b) the revived interest of the Bureau of the Budget in management coordination, and its introduction of new tools for intergovernmental coordination; (c) the growing awareness among key department and agency heads of the problems of grant administration and intergovernmental relations; (d) the establishment through legislation and administrative directive of new organization and procedural mechanisms to cope with these problems; (e) the probing

hearings of the Senate Subcommittee on Intergovernmental Relations and study and recommendations of the Joint Congressional Committee on Legislative Reorganization have also helped reveal shortcomings of the grant system - thereby inspiring the Federal government to take measures for improving it. (99)

On the negative side, however, the past history of the Bureau of the Budget (which is closely associated with the President's office as an executive apparatus of the Federal government, doing various organisational and administrative functions including administration of grants) warrants skepticism, despite its recent stirrings, that it can be, or wishes to be, the top-level mechanism that is needed for effective governmental management of the grants-in-aid system. Further, not all department and agency heads have appreciated the need for improved grant management and intergovernmental relations nor have they exhibited a determination to institute policies and machinery for meeting these needs. The new tools for interdepartmental and interlevel coordination have not yet proven their potency. Moreover, officials continue to offer formidable resistance to Presidential and Secretary - level efforts to bring about simplification and interlevel coordination in the grant system. Finally, improvement of the legislative role

in overhauling the categorical grant system faces the inherent difficulties of achieving more consistency among the functional committees in originating and revising grant programs and of overcoming the long-standing resistance of the General Accounting Office to fulfilling the role of legislative monitor of executive management and organization. (100

The relationship between State administrative organization and capability and grant-in-aid program responsibilities exercised by the State has become a matter

The Impact of
Grant Programs on
the Organization and
Administration of
the Units.

of paramount concern. On the one hand, they have served to encourage improvement in a number of administrative practices, including personnel administration, training and professionalization, and to foster more rational agency organization in aided program areas, on the other hand, they have strengthened bureaucratic functionalism; tended to weaken top-level coordination of related programs, and activities and aggravated the already dispersed character of most State government organization. Some grants have bolstered State line agencies to the disadvantage of the Governor's position, and have conflicted with attempts to strengthen his role to overall coordination of State programs.

Furthermore, specific grant-in-aid requirements, while strengthening discrete features of State government organizations have also served to thwart State initiated effort at general reorganization. (101)

Evidence of this contradictory program emphasis can be discerned in two staff studies done for the 1955 Kestbaum Commission on Intergovernmental Relations. The final report of the Commission, however, makes no mention of the impact problem and the 'General Analysis' chapter of one of the Kestbaum survey reports concludes that "a reading of the State Chapter suggests that the overall impact of federal grants has had relatively little adverse effect in a majority of the States studied. (102)

The comments of a number of the Commission's field reporters, on the other hand, clearly indicated that one reason for this lack of identifiable impact was the fragmented organizational pattern in State Governments characterized by the large number of administrative units and independently elected departmental heads. (103)

The impact of Federal grant programs on executive responsibilities for policy and administration in state

Governors and the Grant System.

government is considerable.

Such grants, after all, provide a substantial portion of the total revenue of a good many

states and significance of this factor can never be denied.

Coleman Ransons, in his thorough study of the governorship, pointed out that the policy implications of the Federal grants-in-aid system may narrow the options of a Governor and thus circumscribe his role as policy initiator. Even though the program themselves benefit the State".... the presence or absence of a Federal grants-in-aid program in a given field is a powerful factor which conditions the legislature and the Governor in making policy decisions. In practice, therefore, the Governor finds that his policy decisions are conditioned by the policy decisions which have been made in Washington...." (104)

One of the few attempts to probe systematically the gubernatorial attitudes of grants-in-aid issues was undertaken by the House Subcommittee on Intergovernmental Relations in its 1957 questionnaire survey. Among the battery of questions posed to the Governors were detailed questions in four functional areas - employment security, highways, public health and welfare. Although there were some questions about the extent to which the responses reflected the views of the Governors rather than the program officials, all of the sub-committee's questionnaires were cleared through the offices of the 32 governors participating in the survey. (105)

The general reforms suggested by the

Governors included permitting fund transfer between program categories substituting a block grant for separate categorical grants and Federal action to improve program administration etc.. (106)

Professor Deil S. Wright attempted to document the varying perspectives of the Governors on Federal-State relations in 1966. He found between 1946 and 1966, that 160 formal policy resolutions were passed by the Governors' Conference. Wright classified each of these resolutions according to the policy action called for : Did the resolution urge more Federal activity or less ? Did it call for more State activity, or more interstate action ? Prof. Wright's general analysis of these resolutions highlights the somewhat ambivalent perspectives of the Governors on Federal Grants-in-aid found in the House Subcommittee survey. The resolutions were about evenly divided between those calling for greater expansion of certain grant program and those criticizing implementation requirements. Most Governors did not appear to wish to turn the clock back on Federal-State programs but were concerned about the impact of these joint programmes on their political and administrative leadership roles. (107)

The Council of State Governments conducted a study in 1948 on the basis of a questionnaire sent to

approximately 500 state administrators connected with federal aid programs which Views of the State Officials. revealed that over three-fourths of the 250 respondents believed that the present amount of federal aid should be increased. On the other hand, only half felt that the system of Federal grants should be expanded to include new programs. (108)

Over 70 percent indicated that Federal aid did not tend to unbalance overall State programs. Almost 90 percent favoured State budgeting and control of Federal aid funds thereby making Federal aid funds subject to the same financial control as state funds, and almost three-fourths appeared satisfied with the provisions for state matching. Nearly 70 percent of the state respondents were content with the 1948 apportionment provisions in grant programs and a slightly larger proportion agreed that fund allocations for their programs were satisfactory. (109)

Three questions in this survey were the same as those posed in a 1928 survey undertaken by the National Municipal League and were included to compare possible changes in attitudes over a period of 20 years. (110) The questions were : "(1) Have Federal grants stimulated state activity with respect to aided programs ?

(2) Has Federal supervision improved State standards of administration and service ?

(3) Has Federal aid led to Federal interference in state affairs ?⁽¹¹¹⁾

While no basic change in attitude was discovered with respect to the first two questions, the third produced a significant shift in opinion. Very few State officials felt in 1928 that Federal aid led to Federal interference in State affairs, but over one-third of the 1948 respondents believed that it had.⁽¹¹²⁾

Table: 3.3.

Responses of State Administrators To Questions on Federal Aid, 1928 And 1948.

Questions	1928			1948		
	Number of replies	"Yes"		Number of replies	"Yes"	
		Number	Percent		Number	Percent
Question 1*	264	240	90.9%	325	305	93.8%
Question 2*	264	181	68.6%	317	223	70.3%
Question 3*	264	16	6.1%	321	115**	35.8%

* Questions are given above in the text.

** Including 28 replies which stated that interference was not burdensome.

Sources : The Council of State Governments, Federal Grants-in-Aid,

Report of the Committee on Federal Grants-in-Aid,
Chicago, 1949, P.280, cited in the Report of the ACIR,
Vol.1, oct.,1967, Washington D.C. P.207.

The 1957 and 1958 hearings held by the House Intergovernmental Relations Subcommittee covered a number of Intergovernmental problems, including grants-in-aid. In summarizing its extensive hearing record on grant-in-aid in the U.S.federal system, the Subcommittee found : favourable nationwide acceptance of the grant-in-aid principle and of most grant-in-aid programs; weaknesses in State governments helped facilitate the growth of Federal grant activities; the growth of Federal activities was taking place because the states, by constitutional and statutory means, had restricted their own powers and those of their political subdivisions; and officials of State and local governments indicated a fairly high degree of satisfaction with Federal participation in existing grant programs, but much of the dissatisfaction concerned grant programs using narrow categories to promote special objectives within a general field of activity. (113).

Another 1963 survey conducted by Prof.Deil, S.Wright and Prof.Richard L.McAnow, probed the views of State executives administering grants, as well as other agency heads of the nearly 1,400 persons surveyed, 933 responded and of

these nearly one-third served with departments where Federal aid constituted 50 percent or more of budget. ⁽¹¹⁴⁾ The views of these State ~~stan~~ grant administrators are highlighted in the following Table.

Table: 3.4.

Views of State Grant Administrators on
Federal Grants-in-aid, 1963.

<u>Questions.</u>	<u>National Percentage Responding "Yes".</u>
1. Do Federal funds increase the amount of funds raised by the State ?	52%
2. Does Federal aid seem uncertain and difficult to estimate ?	40%
3. Is your agency less subject to supervision and control by the Governor and Legislature because of Federal aid ?	50%
4. If Federal aid did not have restrictions on how the money is spent would you allocate the funds differently from the way they are presently spent ?	54%

Source: Deil S. Wright and Richard L. McAnow, "American State

Administrators: Study Code and Marginal Tabulations
For the State Administrative Officials Questionnaire,
"Department of Political Science and Institute of
Public Affairs, The University of Iowa, Iowa City,
Iowa, January, 1965, 40 pages, mimeographed, cited
in the Report of the ACIR, Vol.1, October, 1967,
Washington D.C., P.209.

Wright and McAnow's analysis of the first question - the stimulative character of federal grants - pointed out that despite the lack of objective data, a majority of these State executives believed that the fiscal effects of Federal grant programs are stimulative. This survey, however, revealed considerably less than 90 per cent, plus affirmative responses disclosed in the 1928 and 1948 surveys. In a later study Wright concluded that even though the definition of stimulation was more precise in his 1963 survey, Federal grants are no longer perceived by state officials as being a stimulative as they once were. (115)

On the second question, Wright-McAnow survey verified an administrative problem often cited in earlier surveys as a source of difficulty to State executives, with the uncertainty or difficulty of estimating Federal aid funds being noted by two-fifths of the respondents. The third question sought to determine the extent of line agency administrator's

independence from top policy control. One-half of the respondents freely acknowledged that where Federal aid programs were involved, they were less subject to the supervision and control of State policy as established by the Governor and legislature. The last question in Wright-McAnow study revealed that a majority of State executives believed that present program distributions distort the allocation of State fiscal resources. (116)

A more recent survey of state opinion on this subject was undertaken by the Council of State Governments for the National Association of State Budget officers. Based on an open-ended questionnaire, this report listed 69 types of impediments under 13 major headings as reported by 23 states. The major difficulties with respect to the impact of Federal grant-in-aid programs on State organization and administration, briefly speaking, were : Excessive program categorization hinders overall planning and co-ordination; lack of co-ordination exists among Federal agencies administering grants; certain federal requirements conflict with state constitutional or legal provisions; arbitrary standards or requirements characterize many grant programs; Merit system requirements do not allow flexibility in personnel management. Such requirements in certain grants-in-aid programs have tended to perpetuate a rigid civil service philosophy to the exclusion

of new ideas in hiring and retaining the most competent employees; the inordinate length of time required by some Federal agencies to render a final decision on applications makes it difficult for States to formulate plans and programs; timing problems are created in that many Federal programs are enacted by Congress in such a time of the fiscal year with retrospective effect that the States are left with insufficient margin of time to plan and implement the programs; reporting requirements are detailed and burdensome; the single agency requirement in several Federal grant programs frequently restricts the discretion of Governors and Legislatures in administrative organization; State agencies which have overall jurisdiction over certain fields are ignored in the increasing number of Federal programs which deal directly with local governments and this creates administrative and policy problems at the State and local levels; Federal program audits frequently require State agencies to retain records for an excessive period and give little or no recognition to State systems of comparable quality. (117)

At the State level, the complex and frequently confusing set of relationships involved in Federal grant administration has produced strong and varying reactions. A 1963 survey by the Senate Sub-committee on Intergovernmental Relations, a

Views of the Local Officials.

1966 survey of City Managers' Association, and testimony by Mayors in hearings before the Senate Subcommittee on Intergovernmental Relations, February & March, 1967, on "Creative Federalism" etc. were some of the surveys of local officials that indicated that, in general, difficulties encountered by the local governments were fairly specific and should be considered in the context of an overall pragmatic acceptance and implicit endorsement of Federal aid programs. (118) These surveys go on to suggest, inter alia, that, with the increase in the number and magnitude of grants, the belief has grown among State and local officials that Federal aid has led to greater Federal interference and is tending to exert a less stimulative and more coercive impact. Concurrently, there has come a growing acceptance of the grant-in-aid principle, but accompanied by a desire for a number of specific reforms in the system - including greater flexibility in organizational, personnel and fiscal reporting requirements, greater uniformity in matching and apportionment formulas, broader categories, improved intra-agency, inter-agency and interlevel co-ordination, and greater certainty and better timing in Federal grant finding practices. With the increase of federal-local grant programs a divergence of opinion has emerged between State and local officials with respect to the states' role in grant-in-aid operations. (119)

"State legislatures in the U.S. political system are as affected by the impact of federal grant programs

as the executive branches and the Governor. Their law-making, administrative oversight, and fiscal functions - and in some instances the constitutional amending role - are all conditioned to a greater or lesser degree by the grant-in-aid system. Does a State authorize its localities to participate in a grant program? Does a State itself join in various grant programs? Is its bureaucracy structured and empowered to implement joint action programs? Is the Governor provided adequate management controls over the executive branch? To what extent is a program matched with State funds? These are but a few of the grant-related questions which State legislatures alone can decide. These responsibilities are merely part of the greater role which has fallen to State legislatures in this rapidly changing era of mushrooming state functions, larger State budgets, expanding state personnel and more intricate inter-governmental relations."⁽¹²⁰⁾

Local governments in the United States receive Federal grant assistance - sometimes directly supplemented by State aid - under a wide and often bewildering range of different programs and authorizations with varying provisions and requirements.⁽¹²¹⁾ State involvement in the administration of Federal grant assistance to local government

arises primarily in three ways : (1) State authorizing or facilitating action may be necessary for local participation; (2) the State may be directly involved in administering the grant program ; and (3) States may provide a share of the required non-federal matching funds. ⁽¹²²⁾ But here one should refrain from making detailed discussions of the impact of grant programs upon local governments in the United States since the scope of the present study is limited to assessing the impacts of federal grants-in-aid only.

An overview

Recapitulating the trends and problems of the system of grants-in-aid in the United States, in brief, it can be said that the categorical grants-in-aid in that country, has had a near-explosive growth in recent years, in terms of numbers, dollars and effects on Federal-state-local relationships. The outstanding characteristics of this growth have been : the proliferation and excessive categorization of grants; the expanding use of project grants; an increasing variety and inconsistency in matching ratios; the development of multi-functional grant programs; the trend towards bypassing the states with direct Federal-local relations ("direct federalism") and bypassing both state and local governments ("private federalism") a growing emphasis

on grants to urban areas; multiplication and inconsistency of planning requirements; failure to rationalize Federal field organization and devolve significant grant authority to regional offices.

The categorical grant system, and particularly some of these recently acquired features, are causing severe intergovernmental strains. Probably the number one complaint, as is inferred from the study made above, by the State and local governments is the "information gap" : what grants are available, who administers them etc.. Multiple and inconsistent planning requirements cause confusion. States feel that they are being elbowed out of their rightful position at the fulcrum of the federal system by the trend toward direct Federal-local grants and the increased reliance on project grants. Further, the trend towards "private federalism" may make both State and local governments uneasy since this type of grants might bypass both of them.

The National government has had to come to grips with some of the frictions generated by the grant-in-aid system and has tried to lubricate the friction points to some extent, including, top administration establishment and maintenance; the Bureau of the Budget's rekindled interest in intergovernmental co-ordination; actions by key department and agency heads to deal positively with intergovernmental problems;

aroused concern in congress, expressed in the holding of various sets of hearings on the problems of grant administration. On the negative side of the picture, however, full awareness of the intergovernmental and inter-agency implications of their respective grant-in-aid programs has by no means penetrated all domestic Federal department and agencies; new techniques of interagency co-ordination are still only in the testing stage; there is still doubt whether Congress will strengthen its procedures and its use of the General Accounting Office [it has been revealed from different Congressional Sub-committee hearings that this office (GAO) has provided a long-standing resistance to congress toward fulfilling the role of legislative monitor of executive management of grants] (123) in order to better discharge its role in the review and overhaul of the grant structure.

The changing impact of Federal aid, in the U.S. Federal system, on State and local administration over last few decades has created special problems, as the above study reveals, for top-policy-makers at the State and local levels:

Most state and local officials believe that the increasing number of grant programs has led to greater Federal interference in their administrative and policy roles and has tended generally to be less stimulative and more coercive.

The grant-in-aid principle is accepted by state and local officials, but specific reforms are desired, including greater flexibility in organizational, personnel and fiscal requirements, greater uniformity in matching and apportionment formulas, broader categories; better program co-ordination, and greater certainty in Federal grant funding practices.

Grants, in many cases, have accentuated the cleavage between line agency administrators and political decision-makers and between the states and their localities.

The Governors in many States lack formal administrative authority to cope with the negative features of Federal grants in the State executive branch.

The lawmaking, administrative oversight and fiscal functions of the State legislature are conditioned to a greater or lesser degree by the grant-in-aid system and many State law making bodies do not have the time, the tools or the organization to assume effective legislative leadership.

State authorization for local governments to participate in Federal grant programs generally has been good, but direct fiscal involvement by States in Federal-local programs, while improving, continues to be the exception, rather than the rule.

The extent to which States provide technical assistance to help their local jurisdictions varies broadly but generally much more effort could be made.

To E.L.Irvine, as regards grants-in-aid the Federal government in the U.S. political system tries to influence the state agency through the following mechanisms :

"A. The actual wording of the federal law and the amount of money appropriated affects the particular program. The law is interpreted by federal administrative regulations or rules having the force of law.

B. The federal agency issues manuals implementing the laws and regulations. The state must prepare a plan and submit a budget for approval by the federal agency in order to use the federal funds. The formal purpose of such devices is to insure that the will of Congress is carried out.

C. The federal government will receive state laws, administrative rules and manuals of performance and check them for conformity to federal law and regulations as the federal agency interpretes them.

D. To enforce the above, the federal government may withhold payments due to the state governments, find exceptions in fiscal audits and administrative reviews

by federal officials, or in extreme cases withdraw all federal funds.

E. Annual report and other more technical devices are among the added formal controls".⁽¹²⁴⁾

E.L.Levine has also mentioned some informal mechanisms through which the Federal government in the U.S.A. tries to influence the State agency with regard to the administration and management of grants. Technical consultation provided to the States is a special device of federal influence; the federal officials serve as a disseminator of information both on research conducted nationally and on information learned from other States etc..⁽¹²⁵⁾

The existence of vertical and horizontal imbalances in the American federal system can hardly be denied when Robert L. Morlan's view is considered : "Another controversy revolves around the legitimacy of using control over grants-in-aid as a means of enforcing national social policy. The threat of withholding grants for established programmes is a powerful lever. In recent years this tactic has been used with educational grants in an effort to accelerate school disintegration One difficulty that muddles our thinking about grants-in-aid and other aspects of nation-state relations stems from our tendency to view all States as being equal to each other The differences among states are not

only in size and population, but in the capacity and resources to provide many kinds of public services, the quality of the political system, the stage of administrative development, and in many other characteristics. (126) "A perennial problem in the American federal system," says V.O. Key, "has been to make the most appropriate assignments of jurisdiction to the States and to the national government. The question whether a given function should be undertaken by the federal or by the State governments recurs constantly. Because of the difficulty of altering the constitutional distribution of powers, expedients have been sought to overcome constitutional obstacles to nationwide action. The belief has gradually arisen, although it has not been stated in rigorous theoretical form, that the problem need not necessarily be solved in terms of national or State administration. A middleground exists in which the machinery of federal and state governments may gradually be interwoven to approach the unitary form without sacrificing the essential virtues of federalism. In some quarters the grant-in-aid, as one of the most significant of the methods for interlocking the various levels of government, is viewed as a sort of panacea, a device by which most national problems may be coped with, thereby avoiding both constitutional difficulties and the problems supposedly inherent in the national administration." (127)

Author like Morton Grodzins likes to conceive of federal grants-in-aid in the U.S.A. as essentially a device of intergovernmental co-operation instead of being an instrument of federal centralization.

Grants As
Cooperative
Device.

"The grants-in-aid thus is a symbol of governments' reaction to the interdependent social institutions in a modern society", (128) says Grodzins and maintains that it is "a device for meeting the demands of the interdependence, blending the needed direction from the center and the equally needed discretion at the periphery. The grant, in short, is an admirable invention for the promotion of collaborative federalism". (129)

Morton Grodzins further maintains that the grant system has had many by-products highly advantageous to States and localities : viz., the co-operative federal system has provided needed standards of service according to a national minimum in many fields, service that many State alone would find it impossible to supply; the system has added to the activities of the State governments, contributing to their resources and expanding their services in programs that directly touch the day-to-day life of every person; this has avoided many undesirable alternatives from the viewpoints of the States, as for example, the

national government has not assumed functions that can be better administered by the State governments and if the States were left to their own resources, the services demanded by the citizens would not have been performed in a good manner; moreover, the co-operative approach of the grants system has helped improve the administrative efficacy of many State activities. National administrative standards and national advice have done much to increase the professional skill and effectiveness of state administrators. (130)

This co-operative aspect of intergovernmental relations in the U.S.A. has also been emphasised by Daniel J. Elazar, a celebrated writer on American federalism. To him, "the American federal system is, at one and the same time, extraordinarily simple and unusually complex. The simplicity of the federal system lies in a formal structure of federal, State and local governments and the outline of former relationships between them. The complexity of the system lies in the myriad relationships that have developed between the governments and those who make them work, relationships which make things something other than what they seem to be, in case after case. For example, few Americans realize that, despite the publicly acknowledged increase in federal activities, State and local governments outspend the federal government by a two-to-one margin

for domestic purposes or that what often appear to be federal controls over State and local activities that are partly financed by federal funds are actually controls designed to enforce standards set by State and local administrators in cooperation with their federal counterparts". (131)

Describing American federal system as basically a "partnership" process among different levels of government, Elazar puts "sharing of functions" as "involvement of all planes of government in virtually every activity". (132) Thus, given the basic fact of sharing of functions, Elazar thinks it impossible to talk about clearly separate local, state and federal functions. (133) He, however, agrees that "there are few cases of federal expansion at the expense of outgoing State operations", but the "federal involvement has generally come about where the states have not acted or have been unable to do so and has usually served to stimulate the states to exercise their authority, causing a great expansion of state activity in the same field and an overall enlargement of the scope of state governmental operations". (134) Elazar then brings about grants system to substantiate his view. "First in importance among the forms of intergovernmental cooperation are the grants-in-aid". (135) "Take the great federal-state

grant programmes" he says, which were "considered to be radical attempts at centralization we commonly think of grant programs as Federal (meaning national out-of-Washington) program. Yet in reality they are federal (meaning shared by Washington-and-the-states) programs with the emphasis for shaping them increasingly placed on the states. While Washington sets certain basic standards for each program, it is actually the states, through their state and local officials, not only to administer these programmes which their legislatures have authorized within their boundaries but to determine a major share of the policies they will follow. They do so by virtue of their authority as states as recognized in the grant programs; the ability of their officials to join with colleagues from other governments, federal, state, and local to formulate common standards for the programs; and through the influence of the state and local representatives in Congress who are concerned with protecting their interests. These conditions prevail in the cooperative highway and welfare programs, in most public health programs, in many of the agricultural programs, indeed, in the entire body of great grant programs presently in operation. In all these programs, federal aid actually reinforces the states and localities and governmental units far more than it interferes with them". (135)

"The federal system", argues Morton Grodzins", is not accurately symbolized by a neat layer cake of three distinct and separate planes. A far more realistic symbol is that of the marble cake. Wherever you slice through it you reveal an inseparable mixture of differently colored ingredients. There is no horizontal stratification. Vertical and diagonal lines almost obliterate the horizontal ones, and in some places there are unexpected whirls and an imperceptible merging of colors, so that it is difficult to tell where one ends and the other begins. So it is with federal, state, and local responsibilities in the chaotic marble cake of American government". (137)

"Grants-in-aid", says George Benson, "have been the major factor" in altering the situations in the U.S.A. in the Twentieth Century. (138) The major changes, to him, include the pressing nature of federal grants along with professionalism, technological and political factors. The grants-in-aid structure in the United States has left a number of unsolved problems too. It does not equalize always very effectively. It has sometimes 'decreased' state and local responsibilities and 'confused' state and local budgeting process. Pressure groups are continuing to operate for more and more grants. The only technical device, Benson thinks, for preventing the development of a 'politically irresponsible' grants-in-aid system in the U.S.A. seems to be the idea of 'block grants'. (139)

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