

FEDERAL FUNDING: THE FIRST 200 YEARS

by Ron Ridenour

America's early settlers were rugged individuals; "go it alone" was their operating philosophy. But during the Revolutionary period, cooperation between the central government and the states became a matter of survival. The recognition of that interdependence was a first step toward our system of federal grants.

The Articles of Confederation, ratified in 1781, allowed states to enter into a "firm league of friendship with each other for their common defence . . ." Four years later, Congress ordained the first federal grant: the Land Ordinance of 1785, which granted land to soldiers, in lieu of money for their war efforts. Since the earliest beginnings of the Constitution, the courts and the Congress have endorsed the government's power to tax and spend for a broad range of public purposes. Today, the United States is the largest grantor in the world, supporting one-half million institutions in the United States through the grants system.

The United States Commission on Intergovernmental Relations has characterized the history of grants-in-aid in terms of three periods. From 1785 to 1918, education and agriculture were dominant; from 1918 to 1930, highway construction predominated; and from 1930 to the present, welfare has been dominant. A less broad breakdown, used here for easier reference, is: 1985 to the onset of the Depression; the New Deal; the '40s and '50s; the Great Society; and the New Federalism.

Grants programs from 1785-1920s

The first grants made to the Northwest Territory advanced the cause of statehood by transforming territories into states with more political clout, and strengthened the national government through a greater tax base. In this manner, the public domain served as the integrating factor in the development of cooperation between the states and the federal government.

The United States Committee on Agriculture, reporting in 1958 on government subsidies, pointed out that when the first Congress convened in 1789, its first piece of legislation was "the enactment of a tariff law, to protect and promote the infant and frontier industrial development of America. Moreover, this legislation set up a special subsidy mechanism to encourage the development of an American merchant fleet," giving tax favors to American shippers and private banks.

The Committee said that subsidies embrace "industries whose profits would be less without protection of the tariff laws and the many other statutes that soften the full force of competition in a private enterprise economy; and this broad definition (of subsidies) likewise encompasses all working people whose earnings are greater because of minimum wage, collective bargaining, and immigration laws."

Throughout our history, budget and fiscal policy has been predicated on the common belief that the federal budget should be balanced annually because business demands financial stability. The wealthy believe that any debt hurts them by slowing profits. They resist the press for more social services. Ironically, however, business has traditionally been propped up by federal grants and subsidy laws actually aimed at curbing private enterprise.

The following are all grants known between 1785 and the 1920s. Because many appropriations were hidden in legislation enacted for other purposes, a precise accounting has never been produced.

☆**1785-87** Land grants to Northwest Territory.

☆**1789** Subsidy for merchant fleet development.

☆**1798** Funding for merchant hospitals for care of American merchant seamen laid the basis for the current public health services, with six federal agencies administering multibillion dollar programs.

☆**1802** With the admission of Ohio, each state was entitled to grants for the public domain for school support including grants for "internal improvements"—construction of canals, wagon roads, and eventually railroads. These monies went to private businesses.

☆**1803** Federal government sponsored the Lewis and Clark expedition, starting at the Ohio River. President Thomas Jefferson appointed the explorers "to trace the Missouri to its source, to cross the highlands and follow the best water communication which offered itself from thence to the Pacific Ocean." This famous exploration took three years and precipitated the acquisition of the Louisiana Purchase territory and the Oregon country, and advanced the American fur trade. The explorers were awarded grants of land by Congress.

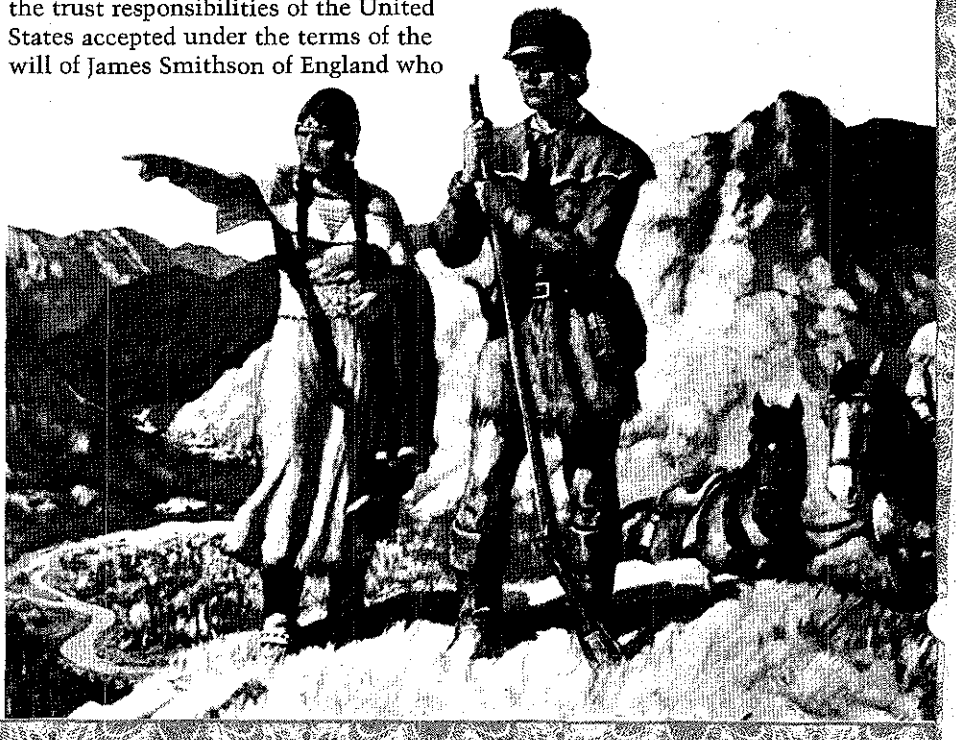
☆**1808** Congress appropriated small sums to states for militias, a precursor to the current National Guard system. The national government assumed the states' war debts as a consequence of the Revolutionary War. The $18 million liability was an enormous sum; annual revenues stood at $4.5 million.

☆**1836** Congress appropriated the first large cash grant to states to spend as they saw fit. Under the Surplus Distribution Act, states used the $28 million surplus.

☆**1836 and 1846** Congress approved the Smithsonian Institution as an "independent establishment...to carry out the trust responsibilities of the United States accepted under the terms of the will of James Smithson of England who bequeathed his property to the United States 'to found at Washington...an establishment for the increase and diffusion of knowledge among men.' " It was to offer "a broad range of educational and research activities." Strong anti-intellectual feelings permeated the nation then, and much of the money bequeathed was squandered on Arkansas state bonds, which soon defaulted. The Smithsonian was finally established in 1846, and is today the largest single center for visitors, with a staff of over 3000 and an annual budget of $100 million. It has a collection of 75 million items, growing at a rate of one million a year.

☆**1842** Congress granted Samuel F. B. Morse $30,000 to test the feasibility of public use of the electromagnetic telegraphy system. The bill gave almost total freedom in the use of the funds.

☆**1857** Minnesota pressured Congress to pass a land grant for railroads, assuring its statehood and profit for four private railway companies. Bonds were also created for use by private companies in constructing railroads. By 1862, transcontinental railroads were under way with another land grant to Union Pacific. The national government had given 6.3 million acres of public lands to private interests—farmers and gold and silver mine owners—in the first half of the 19th century. Another 183 million acres of federal and state lands were granted to railroad companies between 1850-71. These grants aided territories in becoming states, in



building state revenues and in providing huge profits for private industry. Without them, private industry would have developed much more slowly than it did, and the emergence of the U.S. as a world power would have been retarded.

☆**1862** The all-important Morrill Act allocated 30,000 acres of public domain to every state for each senator and representative sent to Congress, speeding up the federalization of the United States. These lands were used for educational institutions.

☆**1879** Congress provided for education for the blind.

☆**1887** The Hatch Act gave cash grants for agriculture experimental stations. That "granddaddy" of cash grants allowed the development of agriculture and vocational training in many fields. The precedent was set for later airport construction, urban renewal, water treatment, and mass transportation. This was the first act requiring annual reports on how money was spent and delineating progress of the experimental stations.

☆**1888** Congress appropriated $120 per year for each disabled veteran for the operation of state homes, long fought for by vets of the Civil War. This was the first money grant for services to individual citizens.

☆**1890** The second Morrill Act for education was passed, tightening federal control over state activity. It allowed federal officials to withhold payments if states failed to use funds "properly." The act initiated the first inspections of state structures by the federal government, under the departments of Treasury and Interior.

☆**1911** The Weeks Act offered federal assistance for fire protection in some forested areas. It was small in scope, but required the first matching funds in the grants-in-aid system. It also required the federal government to approve state projects before they were funded.

The Hatch Act, the second Morrill Act and especially the Weeks Act provided the essential features of the 20th century categorical grants system.

A federal inquiry in 1912 found that agricultural grants had been "violated consistently in several states," by delaying investing the capital or investing it at less than the prescribed 5 percent, causing loss of income to colleges, and using grants for purposes other than colleges. The study caused controls to be instituted in ensuing congressional acts for grants-in-aid. These early acts shaped the administration attitude that grants are not open gifts. Requirements of reporting, auditing and use-as-directed became customary.

☆**1914** The Hatch Act was extended to include grants for agricultural extension work.

☆**1916** With the completion of a national railway system, Congress passed the Federal Highway Act. Its purpose was to build roads over which agricultural produce could be transported to the railway points. Debate raged for six years over the degree of federal control permissible, and the question of how much money should be allocated for the development of a national road system and how much for more rural roads. The Act left states with control of what roads would be built. In 1921, Congress passed another law expediting national interstate roads. The largest grant to date was approved: $50 million for the first year. The amount grew to $95.7 million in 1952 and $227.3 million in 1936.

☆**1917** With the Smith-Hughes Act, a small sum was appropriated for vocational education in the areas of agriculture, trades and industry, home economics, and to train teachers for "useful employment." In 1936 the act was expanded to include distributive occupational subjects.

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☆**1918** The Chamberlain-Kahn Act contained a rider to a war measure providing the first funds for health: to treat soldiers with venereal disease.

☆**1920** With the Vocational Rehabilitation Act, Congress granted individual services to those disabled in industry. It was eventually enlarged under the Social Security Act of 1935. The first appropriation amounted to $313,463 and was used to aid in the retraining and employment placement of some disabled persons. The law was prompted by returning disabled veterans of World War I.

☆**1921** The Sheppard-Towner Act was hastened by the 1918 Venereal Disease Health Act. Women had fought for funds for infant hygiene and maternity care. This act was rescinded under the conservative Hoover regime in 1929. Doctors and medical groups disapproved of the government supporting health care. No new individual services were approved throughout the laissez-faire '20s.

☆**1924-1929** The Clark-McNavy law broadened the scope of fire-prevention and allowed private (business) monies for matching funds. Some money was approved for tree seeds and plants for the benefit of farmers.

Grants to businesses, individuals and state-local governments for the first 150 years created little dissent. Critics



did complain that mandatory schooling took away needed labor in the fields. Summer and lengthy Christmas and Easter vacations were instituted to accommodate harvest seasons.

Of the 230 million acres of land the federal government dispersed, over half (130 million) was granted for educational purposes. At least a dozen states were given birth by the grants system.

Also during this period, land grants were replaced by cash grants; continuing programs (categoricals) replaced "single shot" projects; federal surveillance and reporting procedures were established, tightening federal control after more than 100 years of laxity; cooperative enterprising was adopted with the matching grant concept; and automatic formula grants were created based on area size, population and income. Project grants, allocated at the discretion of grantors, waned.

Thus the national government was organizationally ready for the big crash, even though it was not ideologically, or financially, prepared.



The new deal

Until 1929, federal grants payments were so small they couldn't significantly affect state-local finances. No complete grant figures prior to 1929 are recorded, but that year, grants amounted to three percent of all federal expenditures; a decade later, grants accounted for 39 percent of expenditures.

Before the Depression, voices in support of federal aid for the poor or working people went unheard. Pressure for social justice was directed at states, seemingly closer to the people; experimentation was easier on local levels. State-local governments accounted for 74 percent of public spending and 67 percent of taxes.

Aid to states in 1913 totaled $12 million dropping to $11 million in 1927 (except for highway monies first authorized in 1913). In fiscal 1931, the Depression began to make its impact on federal assistance. The government spent 50 percent more than in the previous year for grants, but much of it still went for the construction of highways, in spite of the drastic unemployment rate that put 15 million workers on the streets, many of them holding picket signs.

While workers and radical groups organized, demanding social justice, the Hoover Administration resisted liberal and left pressure, taking the attitude that the economy would cure itself. In 1932, Congress passed the Emergency Relief and Construction Act, appropriating $300 million in unrepaid loans to states and cities.

When Franklin Roosevelt took office, he called for broad executive power. Americans responded quickly. National problems required national remedies. The economic crisis had paralyzed state-local governments. By 1933, 25 percent of the work force was unemployed.

The Federal Emergency Relief Administration Act (FERA), which forced significant changes in direction between federal-state relations, was the first major step taken by Congress. The most rapid expansion of federal welfare in United States history occurred with the distribution of $500 million in 1933 on a 3-1 matching basis. Federal assistance totaled an unprecedented $3 billion in three years, with another $1 billion coming from states.

The next major break in the historical focus of grants-in-aid came that year with the Wagner-Peyser Act, which established public employment offices in states and assigned workers to federal work-relief programs.

The public assistance field expanded radically, with the Social Security Act of 1935 appropriating direct aid to the aged (65 and over received $15 a month), to the blind ($15 a month) and to dependent children ($6 a month). By March, 1937, 1,300,000 senior citizens and about 31,000 blind persons were receiving aid; and 450,000 families with children were on AFDC (Aid to Families with Dependent Children).

With the establishment of unemployment compensation in 1935, the federal government gave money to states without matching funds, paid for by an employers' tax. Only Wisconsin had previously had unemployment compensation.

Federal government intervention caused tension with the states. States resented what they considered the arrogance or impetuosity of federal agents, while federal officials disliked the slowness and lack of awareness of state officials. Federal agents often bragged about their power of imposing the New Deal on recalcitrant states. A prevalent attitude recorded in government documents went like this, "Give the good guys the jobs, the bad guys the gate."

The FERA relief payment system was universally disliked. People did not want to be on the dole, and payments varied from $6.78 a month in Kentucky to $45.12 in New York. The inadequate national average was $23.90 a month. Many southern states couldn't afford the matching money, so residents received only the federal portion.

The Social Security Act and the WPA permanently altered the nature of federalism. The precedent for direct government intervention was firmly set, and legally determined.

With the arrival of the Works Progress Administration (WPA), federal jobs were provided, and the number of people on the dole declined. $4.8 billion was spent immediately; by 1942, the costs were close to $11 billion. Some three million jobless were employed annually at no cost to the states.

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Many governors and conservatives generally abhorred this radical step. The most vociferous was Gov. Eugene Talmadge of Georgia, who said, "I don't want to see them (the unemployed), don't let me see them...we must steel our hearts against them all as we did against the wounds and death in the war."

There were many legitimate criticisms of the WPA. Often it was used by politicians to shore up their domain. It was used for pre-election handouts as part of a growing pork barrel system.

While the operating term for federalism in the '30s was "cooperative," it was imposed more out of abject necessity than out of mutual desire. Millions of workers became radicalized; some 100,000 joined the Communist Party and demanded far more sweeping measures. Roosevelt and many captains of industry noted these voices and watched closely as scores laid down their lives fighting police and Army units over

their economic demands. Some historians view the New Deal as a program designed to defuse a revolutionary potential which, without the massive federal reforms, might have exploded.

Federalists contended that states had failed dismally to meet responsibilities to their residents. They saw the task of democratic polity to utilize the resources of centralizing technocracy without being dominated by it. But the technocratic revolution, forever with us, irrevocably leads to greater political centralization, as we shall see with the rise of New Federalism.



The 1940s-1950s

Concomitant with World War II came an end to the depression. Employment soared and grants-in-aid decreased, the only time in history, from $2.9 billion in 1939 to $900 million in 1946.

The federal government concentrated its energies, as did previously militant workers and leftist organizations, on the war effort, relegating domestic problems to a future time. At the end of the war, President Truman appointed the Hoover Commission to study how best to organize the executive branch of government, avoiding duplication and administrative turmoil.

The commission reported in 1949 that "grants-in-aid are a part of the warp and woof of present-day government." It believed that the relationship between federal and state governments is not a question that can be resolved once for all time. Emphasis shifts from generation to generation as "the American people fashion their government to meet the needs of changing times and changing conditions."

"As we have grown as a Nation," the Hoover Commission concluded, "so we have grown as independent States; and government today—all of our governments—is a large social and economic mechanism designed to serve and operate for the welfare of the people." Herein lies the crux of the federal system: it becomes more standardized and centralized as social systems and material conditions dictate. States acting alone cannot solve democratic, national interest and security, and general welfare needs and problems."

The Commission recommended a system of grants that would end fragmentation, evaluate goals, and eliminate programs not measuring up. Its analysis of the grants-in-aid obtains today, and is used by experts as a guide toward achieving future goals.

The Hoover Commission set forth the following as assets and liabilities of the grants-in-aid method.

ASSETS

a. The cooperative system based on grants-in-aid has provided needed standards of public services throughout the country in many fields—services that many States would be unable to supply. It has provided for some redistribution of resources from States that have superior means to those that lack them.

b. The plan has developed a division of responsibility: the National Government giving financial aid and establishing broad standards—the State governments sharing the fiscal burden and maintaining primary responsibility for administration. In addition to decreasing inequalities of service, the grants-in-aid method has raised the level of all aided services, without transferring functions entirely to the National Government.

c. The grants-in-aid method, in fact, has added to and expanded the activities of State governments by contributing to their resources and thereby enabling them to embark upon additional or more extensive public service programs for their own people.

d. It has stimulated States and localities to provide a number of public services deemed necessary and desirable in the national interest.

e. The cooperative method has improved the administration of many State activities. National administrative standards, as in highway and welfare programs, and national advice, as in police work, have done much to increase the professional skill and effectiveness of State administrators.

LIABILITIES

a. Grant programs are unrelated: they are uncoordinated; and they have developed in a haphazard manner without any one agency—Federal or State—concerned with the overall impact and the overall effects of grants-in-aid upon the general operations of government.

b. The grants-in-aid method has removed large areas of discretionary power from the hands of State officials and has transferred a measurable degree of policy-making and ultimate responsibility and control for public services to the National Government.

c. Grants-in-aid have altered State service patterns and total State programs. Available Federal funds for matching purposes stimulate or "persuade" the States in many instances to expend

large sums for an aided program while, of necessity, other needed services are neglected. The public assistance program is one among many examples.

d. In order to provide funds for grants-in-aid, and to adjust to war and depression, the national system of taxation has been expanded until we have extensive overlapping and conflicts on the part of Federal, State and local governments. Of greater importance to State and local governments, the national need for revenue has caused the Congress in some instances to utilize productive tax sources that could be used just as effectively by State or local governments. In this manner, the circle widens. Under pressure to meet needs, Congress appropriates more for grants. In order to secure necessary revenues, the national tax base is expanded which makes it more difficult for State and local governments to secure their own revenue, and hence stimulates pressure from more and more groups for more and more grants.

e. Federal grants-in-aid retard and repress the initiative of the States in financing the growing needs of State and local government, because such grants frequently result in rewarding those States which avoid their responsibility and in penalizing those which accept it.

By the end of the war there were about 25 federal assistance programs. Within six years, the number doubled, amounting to $2.4 billion, still one-half billion dollars short of the 1939 peak. Some of the new programs included free or reduced-cost school lunches for poor children, school construction aid in federally-affected areas, expansion in public health services, and water sewage control.

When the Republicans took over the government with Dwight Eisenhower at the helm, pressure to curb "creeeping socialism" increased and the president appointed a commission, headed by Meyer Kestnbaum, to study how to stop federal expansion. Eisenhower's designs were rebuffed by his own commission, which supported the notion that expansion of federal activity was not a usurpation of state rights, nor was "cooperative federalism" a threat to personal freedom. The Supreme Court has upheld this view, consistently ruling that federal activity in hithertofore uncharted areas is constitutional. Nevertheless, Eisenhower tried to turn over some federal functions to states; but any cuts he tried to make were rejected by Congress.

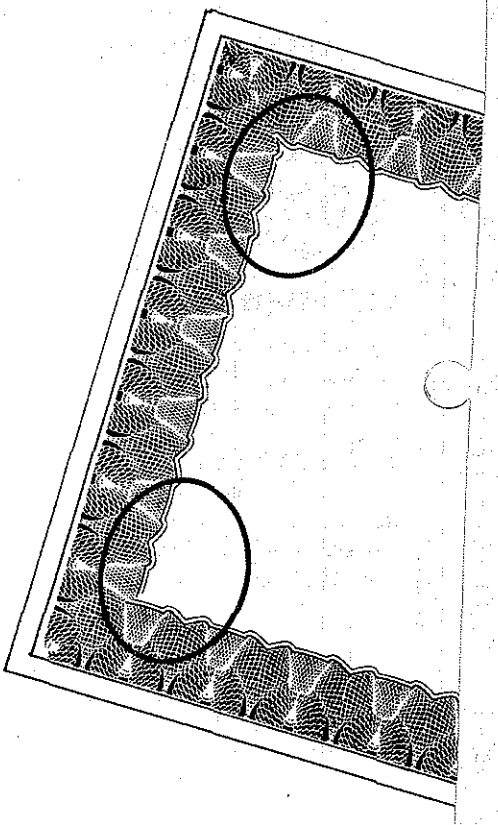
The next major area of funding was science and aeronautics. When the Soviet Union launched its Sputnik in 1957, militarists and national politicians panicked with fear of "falling behind." The National Aeronautics and Space Administration (NASA), established in 1958 to explore space, succeeded in putting the first earthling on the moon in 1969; its budget reached $5 billion in federal aid in 1966. The moon trip cost $26 billion.

Also in 1958, the National Defense Education Act (NDEA) was passed to enhance knowledge in colleges and universities by supporting veterans in school. This was followed by similar acts supporting elementary, secondary, vocational and higher education.

In 1958, federal aid amounted to $2.8 billion, less than one percent of the GNP. Eighty percent of the national budget went to defense and foreign aid; most of the remainder went to road construction. (Today, 25 percent is spent on national defense). Although little was spent on public assistance programs, the grants system still came under attack by organized business. Most of the populace was withdrawn, the mood passive. There had been enough crises, enough programs for the down and out. Now was time to concentrate on "getting ahead."

Business, led by chambers of commerce and associations of manufacturers, maintained that government was too big, too meddlesome in regulating industry and grants programs. A 1952 National Association of Manufacturers bulletin read, "The increasing concentration of political power and economic control in the federal government is destroying the economic and government environment which is essential to the survival of the American system of free enterprise and to the preservation of the American constitutional system of a union of states."

Many governors supported this view, but some state leaders were angry because their states received less from the federal government than the poorer ones. Labor groups, liberals, and minorities supported the evolving



grants system from the standpoint of social welfare. The defense industry and scientific community supported it for the sake of research and development grants. Government officials knew that grants were necessary to shore up gaps in services to needy persons, to stave off rebellions, and to maintain a strong country domestically and in world affairs. So the system moved on, despite complaints by some Republicans. The 1952 Republican Party platform claimed that the Democrats "have arrogantly deprived our citizens of precious liberties by seizing power never granted," and that "they work unceasingly to

achieve their goal of national socialism."

With Eisenhower in power, more money went to highways, aerospace and aeronautics, but more also went to social security benefits and education. Despite the charges of socialism by big business and Republicans, a government study conducted under Eisenhower in 1958 discovered that over $50 billion in subsidies went to big business in one decade (1946-1956).

Mail subsidies	**$5.97 billion**
Business reconversion payments (including tax amortization)	**43.3 billion**
Subsidies to maritime organizations (1937-57)	**3.5 billion**
Subsidies to airlines (1938-57)	**.6 billion**

The study also noted that there was no way of determining the dimensions of the benefits to industry as a result of government actions, such as the tariff laws.

"A significant part of our industrial establishment operates today on Government defense and other noncompetitive contracts, without normal risks, and with profits assured. Some 50 of the nation's largest corporations have received $80 billion in government contracts during the past 5 or 6 years. Such contracts cannot be labeled as subsidies to industry, but they do reflect certain Federal financial support. It is notable, moreover, that the Government generally obtains the industrial materials of defense under contracts drawn to assure profits to the producers, whereas the food for the Armed Forces is procured generally without reference to profits or losses of farmers." So found the Committee on Agriculture in 1958.



The great society

With the Korean War came relative economic prosperity. When it ended, the perennial hope for a full stomach and equal opportunity became an expectation that fanned out to more and more of the have-nots. The cities were decaying, blacks remained social slaves, students were closeted away safe from

the rigors of decision-making, women stooped over stoves and typewriters. Then the cloud burst. *We Shall Overcome* became the anthem for blacks, then for the anti-war movement, women, Chicanos and Latinos, Native Americans, gays, the handicapped. The social revolutionary spirit of the '60s sparked an era saturated with opportunities and frustrations.

The plight of the poor became nationally recognized as social movements, television, and liberation struggles around the world brought greater material expectations and an awareness of potential. A young man became president of the United States and dubbed our era the New Frontier.

There were few grants for the poor prior to the New Frontier. But by the time of John F. Kennedy's assassination, the federal government was geared to include the poor in grants programs. When blacks openly rebelled against racism, the politicos realized that many were ready to lay down their lives for a piece of the pie, and the pie was divided a bit more.

In 1953, grants amounted to $17 per capita. By 1964, the figure soared to $51.30 per capita. The total spent increased from $2.3 billion in 1950 to $7 billion in 1960 and $11 billion in 1965. The biggest increase took place after Lyndon Johnson stepped in to quiet the nation with the Great Society programs. From 1963 to 1965, Congress added 170 new grant programs to the 162 in existence in 1962. By 1969 there were 429 programs, with expenditures approximating $24 billion.

Urban Renewal, begun in 1949 and designed to reshape deteriorating housing, had failed; blacks placed torches to the falling structures. Washington got the message.

Johnson forged ahead much as Roosevelt had 30 years before. There was no time to contemplate goals, effectiveness, overlapping. Get the money to the poor, let them know the government cares. New federal agencies were created to distribute and oversee grants. Old ones included the poor in their services for the first time. The oldest social service agency, Vocational Rehabilitation, had always identified the disabled in terms of physical handicaps; now it extended its training and job placement programs to the socially deprived.

Housing and Urban Development (HUD) got started in 1965, the year of Watts. Next came Model Cities, created out of presidential politics rather than through an organized constituency. Its purpose of coordinating urban affairs overlapped with HUD's. There was no consistent strategy, no realizable goals or measurements.

Critics charged Washington with creating bungling bureaucracies replete with ignorant personnel who eroded individual liberties by advancing the "cause" of centralism. Hostility within the government from older agencies and unconsulted advisors, and from without—states and local governments, businesses, and community groups wanting more power and resources than granted—beset the multifarious Great Society programs from the outset. But the wheels were set in motion for the poor to increase their leverage and economic status. The War on Poverty programs allowed input from private, community groups in a limited but structurally significant way.

In 1965, money was also appropriated to combat heart disease and cancer, expanding public health services. That same year, the Office of Economic Opportunity (OEO) was created. Then came VISTA (Volunteers in Service to America), the United States domestic counterpart to the Peace Corps; then CAP, the Community Action Program. Under the Economic Opportunity Act of 1964, CAPs were funded in 500 locations at $237 million; that amount increased to $628 million in 1966. The rapid starts bypassed public officials and other private groups who clashed with the representatives of the poor demanding *action now.*

Block grants had their birth not under Richard Nixon, but during the Great Society. They were used to bypass reluctant local politicians and to supplement categorical grants which had too many stipulations to meet the urgent needs of the tumultuous mid-'60s.

Model Cities Programs in 70 cities were to coordinate all local interests involved in improving poor neighborhoods. Elections were set up for community action boards, which at first were comprised exclusively of poor people. However, under pressure from local politicians, Johnson had the act amended to allow one-third representation from city government. The poor, once activated, only became more frustrated with endless delays and insufficient results.

Despite the efforts of the Great Society, the cities decayed even more. Sen. Robert Taft of Ohio said, in 1972, that urban America represented "physical decay, crime, congestion, and pollution. It reflects a deterioration of our social fabric, a destruction of our old neighborhoods and a corrosion of the inner city spirit. Urban America has suffered from decades of neglect, commitments that were never fulfilled," The problem was compounded by increasing segregation through white flight, accompanied by an erosion of the tax base, and an antiquated system of local government.

Fair Housing Administration (FHA) insurance encouraged exclusionary housing practices by determining cost of homes on "free market conditions," thereby outpricing blacks and other low-income families. The Interstate Highway and the Water and Sewer Facilities programs of the 1950s also encouraged the spread of white suburbs. And the Housing Act of 1949 was soon used by private enterprise to redevelop demolished areas for profit, not with poor people in mind. HUD replaced earlier urban renewal agencies whose collective actions demolished slums and erected luxury apartments and office buildings. By 1973, only 100,000 housing units had replaced 500,000 low-income homes torn down by federal government programs. This amounted to government subsidies for business profits, rather than substantial relief for the residents. The poor took the attitude that urban renewal meant "Negro removal."

What had happened?

With the proliferation of categorical grants, implementation at the state-local levels had become more complex and inefficient. The Council of State Government study of 1966 found administrative procedures that impeded program goals because of lack of consistency; detailed, diverse and burdensome reporting requirements; confusing and varied cost allowances; arbitrary cost sharing practices; burdensome and disparate accounting rules; separate bank account rules; slow reimbursement; delayed audits; long duration of record storage; separate state agency rules, and lack of information for state budgeting and planning.

Johnson's "creative cooperation" wasn't working. Theodore Lowi, in *The End of Liberalism*, argues that the War on Poverty was a total abnegation of the federal government's responsibility because it failed to define a conception of poverty or to define a methodology for attacking it. "The most innovative pro-

gram, CAP, was simply an open-ended invitation for local groups to define their own policy that inevitably clashed with all levels of the power structure."

Johnson had illusions of reshaping America from Washington, D.C. But the United States' pluralistic system, the financial drain of the war in Vietnam, bureaucratic resistance to change, and the stubborn facts of interest group politics coupled with higher expectations of the good life and equal opportunity, resulted in growing discontent. In the summer of 1967, unprecedented numbers of Los Angeles protesters, some 20,000, greeted Johnson with picket signs, and angry voices. He decided not to run for reelection. The next year was the year of Tet and Nixon. The crumbling Great Society was to be replaced with New Federalism and an end to federal financing of "rabble rousers."



The new federalism

Middle-class America and business interests, fed up with poverty programs, riots, street demonstrations and programs which took huge chunks out of wages and salaries, yet seemed to go nowhere, voted for Richard Nixon, who laid out the agenda for New Federalism during his 1969 campaign. "A majority of Americans," he declared, "no longer support the continued extension of federal services." Federalism had traditionally provided for a strong central government. Nixon promised to decentralize its power; to restore "a rightful balance between state capitals and the national capital; to share federal tax revenues with state and local governments; and to eliminate categorical grant programs in favor of block grants, which, he contended, would allow state and local officials to use their "unique strengths" in running governmental programs. He spoke of shifting the focus of domestic assistance programs from service to coordinating administration, from federal control to local control, from big government domination to more private enterprise.

Revenue sharing had had its beginnings in 1958, when Representative Melvin Laird introduced it into the Congress. It failed to pass. Laird later became Nixon's Secretary of Defense. Walter Heller presented a different version, supportive of categorical grants, in 1960, but it also went nowhere. Due to the mounting criticisms of Johnson's categorical programs, none of the 30 revenue sharing bills introduced in the mid-'60s passed Congress.

Nixon's efforts to institute revenue sharing and to consolidate categorical grants failed at first. He impounded OEO funds, which he considered a waste of money. By 1971, his cause attracted greater attention as it became more evident that categoricals were not meeting the domestic needs.

While Nixon emphasized foreign policy at the expense of such domestic programs as Model Cities, HUD floundered for direction. In 1972, Congress passed Nixon's long-awaited State and Local Assistance Act—general revenue sharing—and appropriated $30.2 billion in federal funds for 38,000 state and local governments over five years.

Revenue sharing was viewed with apprehension by the National Urban Coalition and other organizations that feared the funds would be wasted by local officials, that poor people would not get as much of a break at City Hall as in the corridors of Congress, and that government employees, especially law enforcement personnel, would take much of the money for wage hikes.

What passed was not pure revenue sharing, since there were fixed sums unrelated to revenue yield—the amount was determined by automatic increases in annual taxes from new taxpayers. It was designed to decentralize government control, to aid domestic needs through the local level, to stabilize or reduce local taxes, especially property tax, to equalize fiscal conditions between rich and poor states, and to alter the nation's overall tax system through income tax, rather than property and sales taxes. Distribution extended to all counties, municipalities, states, 323 Native American tribes and Alaskan villages and townships.

The findings of a 1974 Brookings Institute study, published in *Monitoring Revenue Sharing* by Richard Nathan, Allen Manvel and Susannah Calkins, showed that the expenditures amounted to 15 percent of all federal aid to state-locals. Much of the money did go where dissenters had feared it would: police departments, increase in personnel wages, and services unrelated to welfare and the poor. About half the money was used to support existing programs that had previously been financed by other sources. New programs consisted of transportation and environmental protection, recreation and police.

Groups combined to protest the use of the funds. The National Revenue Sharing Monitoring Project charged that the government: allowed the cities to get "blacker and poorer and the suburbs whiter and richer by perpetuating the status quo with no requirements to share the wealth; fostered racial discrimination in employment practices of state and local government; failed to inform the public adequately about how revenue sharing funds were being spent; used funds to prop up antiquated state and local structures and tax systems."

Anetha Smith of the federal Office of Revenue Sharing told the NEWS that criticisms were "corrected" in the 1976 renewal, which alloted the same annual expenditure until 1980. "Its complexion has changed somewhat," she said. "It still keeps taxes down, and also creates new service programs to aid citizens."

Smith says there is more citizen participation in decision-making, although critics counter that citizens have no meaningful say at the public hearings, that their voice is only advisory, and comes late in the planning process.

Smith stressed the stronger restrictions against discrimination enacted in the renewal law. She also cited two cases where the government cut off money and sued the cities for discrimination against blacks in the use of revenue sharing expenditures. In Chicago, $113 million was cut off because of police department discrimination in the hiring and upgrading of blacks. The money was reimbursed when the government determined the practices had been stopped.

A landmark legal decision was drawn in *Andrew Hawkins et. al. vs. Shaw, Mississippi*. The U.S. Court of Appeals ruled in 1970 that blacks had been neglected by the city's use of the funds in police and fire departments, and in upgrading an exclusive white part of town solely. It also ruled that to be illegal. The grants were resumed once the "situation was corrected," according to Smith.

Smith thinks the program will become permanent and bigger. Most local officials surveyed prefer revenue sharing to categorical and block grants, because

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they have more power and flexibility of funds.

One of the ironic features of revenue sharing is that it has slowed the flow of grants to private enterprise—the direct opposite of what Nixon and Republican theorists stand for. Government officials admit that the money goes where local politicians decide—more for government purposes, less for enterprising black organizations, such as those previously funded by Model Cities.

Commenting that Administrators and politicians aren't listening to the needs of the poorer communities as much, Pablo Eisenberg, director of the Center for Community Change, says, "It's much harder for an activist to get anything from local politics." Other critics maintain that revenue sharing didn't achieve its purposes of changing the tax structure. California's Proposition 13 may do that, yet its net effect will be more centralism, since nationally administered income taxes will be the ultimate answer to a continuing decrease in property taxes, and the federal government may have to intervene all the more to bail out state-local service needs.

What couldn't be done through limited revenue sharing funds, Nixon hoped to accomplish by pushing through more block grants to states.

As the number of categoricals increased, officials on the budget level were concerned about the inability to transfer federal aid funds from one closely related category to another. This problem was acute in the public health field. The first block grant, the 1966 Partnership for Health, allowed monies to be dispersed as the need called for, within broad guidelines. It also consolidated nine categorical grants and closed some administrative gaps. By 1976, $90 million was being expended to states.

The Omnibus Crime Control and Safe Streets Act, passed just before Nixon took office, was dispersing $405 million for law enforcement improvements by 1976.

The first Nixon breakthrough in block grants was his answer to unemployment. The 1973 Comprehensive Employment and Training Act (CETA) consolidated 17 categorical programs, including all of the War on Poverty manpower programs. Advocacy programs were replaced with coordination efforts and money for jobs chosen by local politicians. Ironically, Nixon instituted a program similar to the WPA, with local rather than federal government officials calling the shots.

In its first year, CETA outlays were $2 billion. In 1977, President Carter expanded CETA and got $11 billion appropriated to include 725,000 countercyclical jobs in 1978. Congress has lowered that number to 625,000 government funded jobs in 1979. A portion of those workers aid private social service organizations such as child care centers, teenage programs and public schools.

The Housing Community Development Act of 1974 consolidated six categoricals, including community action programs. By 1976, $750 million was expended under this program by state officials. The last block grant was instituted that year. Title XX (Social Services amendment to the 1935 Social Security Act) spent $2.36 billion in 1976. States have unlimited authority to develop social services of their own design, to enact them where desired without uniformity, and to extend the number eligible to include moderate income people.

By fiscal 1976, the categorical portion of the $60 billion federal grants-in-aid had decreased from 98 percent a decade earlier to 79 percent, while block grant aid was nine percent and revenue sharing and general support amounted to 12 percent. (The 1977 Catalog of Federal Domestic Assistance, compiled by the Office of Management and Budget, listed 1,046 programs administered by 55 federal agencies. Thirteen more were added in 1978, along with another federal agency).

The Advisory Commission on Intergovernmental Relations' (ACIR) study of 1977 found that block grants resulted from "historical accident and the politics of compromise," and are little understood. The study concluded that, in fact, block grant programs provide *more* local discretion; administrative, fiscal reporting, planning and other federally imposed requirements are kept to a minimum; and the statutory distribution formula narrows federal administrators' discretion.

ACIR concluded that although improved economy and efficiency do not necessarily follow block grant dispersal, fewer personnel are now employed in central and regional offices than before categorical consolidation. However, the extent of decentralization "has been limited by a tendency called 'creeping categorization.'" Congress adds earmarking to activities within the scope of the block grants, building more categoricals around it. Since the first block grant in 1966, for example, 18 new categoricals surround the Partnership for Health grant.

Congress has also resisted putting more block grants into the budget. Several proposals to curb categorical programs have been defeated. President Gerald Ford's attempt to condense 59 categoricals into four block grants for health, education, child nutrition and community social services went down as well.

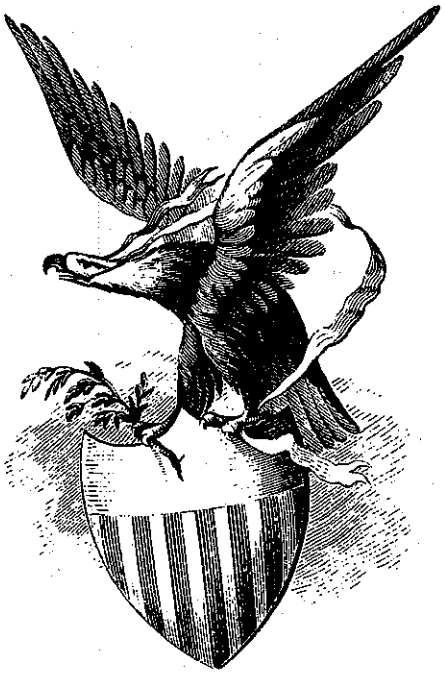
In the era of New Federalism, categorical grants were far from eliminated; they were nearly doubled. By the time Nixon left office, there were 442 categorical grants, accounting for $45 billion. About 60 were reduced as a result of consolidations. Many of these eliminated funding to private groups more apt to protest social conditions. Over half the entire federal budget was expended on social welfare (including social security, veterans' benefits and pensions), comparable to more than $1,000 per person in the country per year. Under Johnson, the average figure was $391.

Despite Nixon's complaints about the profligacy of previous administrations, he spent more. He consolidated and decentralized programs. The Federal Assistance Review standardized 15 areas of administration of grants to state-locals. Now there are only four standard reporting forms, instead of the 53 forms previously used.

Yet some saw New Federalism as merely "romantic rhetoric," a facade behind which Nixon's national government abrogated its domestic role. Others, including liberals, maintained that besides taking power away from citizens groups, Nixon actually increased the national government's domestic role. Indeed, he increased food stamps tenfold, set minimums for the aged, blind, and disabled, and gave automatic adjustments in social security benefits. He tried to get a national family assistance program implemented in which the federal government would fund all depen-

dent children and the working poor. But conservatives joined with obstinate liberals to defeat this radical plan.

Richard Nathan wrote in *The Plot that Failed*, "With general revenue sharing enacted, the new order of march, in short, was to take over the bureaucracy and take on the Congress, to concentrate on administrative steps and correspondingly to downgrade legislation as the principal route for bringing about domestic policy change." Nathan was Nixon's assistant director of the Bureau of Budget from 1969 through '71.



Today and tomorrow

Jimmy Carter has not changed the grants-in-aid yet. Critics claim not enough is being done, and fears mount that the cities are worse off than ever. Moreover, it is predicted that in 20 years, over 80 percent of the people will live in 23 mammoth urban regions.

Health, Education and Welfare, with a budget of $130 billion—more than any national budget other than the USSR—concluded that the poor in the United States are handicapped by hunger "as seriously and in some cases more seriously" than people in Third World nations. And *Newsweek* magazine stated in its August 7, 1978, issue that America is in danger of losing a generation of black youth. "The slums of the nation's aging and blackening cities have bred a population of young people for whom the norms of existence are unemployment, crumbling neighborhoods, fatherless homes, failing schools and dependency on the dole—or crime—as a means of survival."

Newsweek reported "The problem remains that the work is not there." According to government statistics, 30 percent of all blacks fall below the poverty line.

Urban League President Vernon Jordan said this summer that much of the blame for the horrendous conditions rests on a "new negativism...the overwhelming attitude by the majority of Americans that black people are getting more than their due...that they have gotten too much attention by government and government programs."

The prevailing mood during Nixon's administration was large-scale quiescence. Yet federalism has not changed much. "The legal authority to impose whatever degree of restrictiveness it wishes exists unquestionably in the national government," wrote Michael Reagan in *The New Federalism.*

Also intact is the guarantee of a republican form of government; protection against invasion and domestic turbulence; statehood integrity and borders; and an ever-testy balance of power relationship between federal, state and local governments.

As Michael Reagan told the NEWS, "We have one national standard with strong federalism." Given our "single national economic structure with more and more communication and transportation," there can be no other way.

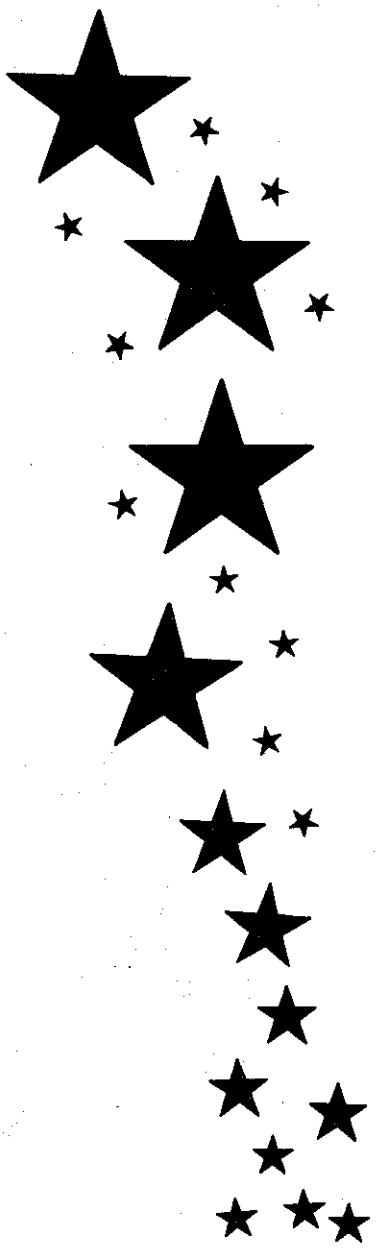
Still, there are serious problems confronting government and the grants system. Neither the government nor the economic system can afford to grow piecemeal. For order and liberty to persist, many experts believe, there must be greater planning, more centralization, and nationalization of standards and programs.

The War on Poverty, the anti-war and civil rights movements have had a permanent effect on the consciousness of all Americans. The loss of credibility in government caused by Vietnam, Watergate, disclosures of illegal acts by the CIA and FBI, and the rising tide of consumerism all highlight the need for making government more accessible to the average person, who more and more expects his/her needs to be met. The chorus of poor people, ethnic groups and students voicing anger and frustration has been amplified by the voices of the middle class.

What to do?

The Advisory Commission on Intergovernmental Relations and the Brookings Institute both maintain that the mixture of categoricals, blocks and revenue sharing appears to have become a permanent fixture in intergovernmental relations. Federal grants are inherently complex; their number and variety make them cumbersome to manage in a uniform and simplified way. They will remain with us, however, because of the necessity for governments at every level to rely on each other, to share their resources, and to deal cooperatively with the problems that affect us all.

Ron Ridenour has written for The Nation, Skeptic *and other national magazines.*



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