

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Federal Grants and the Business Cycle

Volume Author/Editor: James A. Maxwell

Volume Publisher: NBER

Volume ISBN: 0-870-14120-1

Volume URL: <http://www.nber.org/books/maxw52-1>

Publication Date: 1952

Chapter Title: Brief History of Grants

Chapter Author: James A. Maxwell

Chapter URL: <http://www.nber.org/chapters/c4900>

Chapter pages in book: (p. 1 - 13)

Chapter 1

BRIEF HISTORY OF GRANTS¹

Federal grants to state and local governments have a long history. At first, land grants and grants of the proceeds of land sales predominated. Altogether 130 million acres of the federal domain were ceded as an endowment for public schools, and some 4 million acres for higher education (excluding land grants under the Morrill Acts). Another set of grants, beginning in 1816, provided that states be given 5 percent of the net proceeds of land sales within their boundaries with the stipulation that 3 percent should be used "for the encouragement of learning, of which one-sixth part shall be exclusively bestowed on a college or university". In 1862, by the first Morrill Act, Congress gave both land and money to establish colleges in every state, not, as earlier, only in the states in which federal lands were situated.

These early grants indicated that the federal government was prepared to assist state and local performance of a function, education, in which a national interest existed. The grants were outright donations: there was no matching requirement and the government did not reserve the right to supervise their expenditure.

During the next half century the system of grants for education and research, especially agricultural, expanded, and federal conditions were gradually imposed. When in 1890 the first Morrill Act was extended and strengthened, Congress declared that grants might be withheld from states failing to spend for the broad purposes specified. In 1887 the Hatch Act made flat grants of \$15,000 a year for each state to establish agricultural experiment stations, and imposed the modest condition that a financial report be submitted annually; in 1895 provision was made for federal audit. Following the precedent of the Weeks Act of 1911, grants for the agricultural extension service, voted in 1914, carried the important condition of matching.² The Weeks Act, offering small grants for forest fire protection, required also advance federal approval of state plans and federal supervision of performance. Congress took still another step toward aiding education in 1917, voting grants for vocational education in schools of less than college grade; again the grants had to be matched.

¹ An Appendix to this chapter deals with 'definitions and terms'.

² The first instance of the matching requirement appears to have been in 1889 in connection with an annual appropriation of \$25,000 for the care of disabled veterans in state soldiers' homes.

Another function for which Congress early voted federal aid was the construction of highways. It made a start in 1802, when Ohio was admitted as a state, by declaring that 5 percent of the proceeds from the sale of public lands in the state should be applied to constructing roads. As other western states were admitted, this precedent was followed. Federal interest in highways continued for the next three decades, although not much was spent on them, then lapsed until the twentieth century. In 1916 a federal aid road act was passed which was to develop into a major segment of the federal grants program. Besides matching, various other conditions were specified, notably federal approval and supervision of projects and creation of a state highway department. New administrative relationships were established by which the states were induced to reorganize their whole system of highway construction and maintenance.

After World War I a few other grants marked the feeble beginnings of welfare programs. In 1918 grants were provided to combat venereal disease, in 1920 for vocational rehabilitation, and in 1921 for maternal and child health. But in 1923 Congress dropped the first and in 1929 the third, while the second seemed to be in disfavor.

During the 1920's grants for transportation and communication, i.e., highways, made up over 80 percent of the total (discussed in detail below). Welfare grants were of little significance. The other grants moved erratically upward, the main cause being Congressional action increasing the annual appropriation or extending their scope (Table 1).

In the two decades after 1929 many grants were voted; by 1949 forty-two grant programs were in operation accounting for a federal expenditure of \$1,855 million. During the late 1930's grants were even larger, mainly because of the great volume of emergency grants.³ In 1937 emergency grants were nearly 90 percent of the total program; by 1945 they had declined to less than 30 percent and by 1949 to a little more than 1 percent.

1 PURPOSES OF RECENT GRANTS

The Bureau of the Budget has grouped federal grant programs since 1929 under the nine main heads listed in Table 1.⁴ During the 1930's grants for

³ The distinction between regular and emergency grants is not precise. The chief differences are that for regular grants the basic legislation provides appropriations on a continuing basis, while for emergency grants the appropriation is a single lump sum or for the duration of the emergency; regular grants usually call for some specific ratio of state-local to federal money and specify criteria for the apportionment of the federal appropriation among the states, while emergency grants leave requirements concerning both matching and apportionment to the discretion of the administrator.

⁴ Actually 10, but one of the heads, national defense, occurred only during the war, and is so small that it has been omitted here.

Table 1: Total Federal Grants (regular & emergency), Fiscal Years, 1919-1949 (millions of dollars)

	1919*	1920*	1921*	1922*	1923*	1924*	1925*	1926*	1927*	1928*
1 Social welfare, health & security	1	2	2	2	2	2	2	2	2	2
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
1 CWA	..	..	..	..	..	..	..	..	..	..
2 PWA	..	..	..	..	..	..	..	..	..	..
3 FERA	..	..	..	..	..	..	..	..	..	..
4 WPA	..	..	..	..	..	..	..	..	..	..
5 Maternity & infant care	..	..	..	..	..	..	..	..	..	..
6 Total	..	..	..	..	..	..	..	..	..	..
c Total	1	2	2	2	2	2	2	2	2	2
2 Transportation & communication	86	63	90	90	70	79	96	88	81	81
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	86	63	90	90	70	79	96	88	81	81
3 Housing & community facilities	..	..	..	..	..	..	..	..	..	..
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	..	..	..	..	..	..	..	..	..	..
4 Labor	..	..	..	..	..	..	..	..	..	..
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	..	..	..	..	..	..	..	..	..	..
5 Agriculture & agric. resources	4	6	6	7	7	7	7	8	9	9
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	4	6	6	7	7	7	7	8	9	9
6 Veterans services & benefits	..	..	..	..	..	..	..	..	..	..
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	..	..	..	..	..	..	..	..	..	..
7 Education & general research	4	5	6	6	7	7	8	9	9	9
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	4	5	6	6	7	7	8	9	9	9
8 Natural resources (not agric.)	..	..	..	..	..	..	..	..	..	..
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	..	..	..	..	..	..	..	..	..	..
9 General government	95	76	104	105	86	95	113	108	102	102
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Grand Total	95	76	104	105	86	95	113	108	102	102

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
1 Social welfare, health & security	2	1	1	1	1	1	2	33	157	236
a Regular	..	..	..	..	..	805	11	1	..	..
b Emergency	..	..	..	..	..	79	138	248	278	177
1 CWA	..	..	..	..	..	707	1,814	496	8	4
2 PWA	..	..	..	..	..	..	..	1,264	1,822	1,422
3 FERA	..	..	..	..	..	..	..	..	..	..
4 WPA	..	..	..	..	..	..	..	..	..	..
5 Maternity & infant care	..	..	..	..	..	1,591	1,963	2,009	2,108	1,603
6 Total	..	..	..	..	..	1,592	1,965	2,042	2,265	1,839
c Total	2	1	1	1	1	..	..	..	..	..
2 Transportation & communication	86	80	138	132	104	..	..	28	80	143
a Regular	..	..	20	59	62	225	..	203	268	88
b Emergency	..	..	158	191	166	225	276	231	348	231
c Total	86	80	158	191	166	..	276	..	..	..
3 Housing & community facilities	..	..	..	..	..	..	..	..	..	..
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	..	..	..	..	..	..	..	..	..	..
4 Labor	..	..	..	..	..	..	..	..	..	..
a Regular	..	..	..	..	..	..	1	3	12	46
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	..	..	..	..	..	..	1	3	12	46
5 Agriculture & agric. resources	11	12	12	12	13	12	13	22	22	33
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	11	12	12	12	13	12	13	22	22	33
6 Veterans services & benefits	1	1	1	1	1	1	1	1	1	1
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	1	1	1	1	1	1	1	1	1	1
7 Education & general research	9	10	11	11	10	10	13	13	14	23
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	9	10	11	11	10	10	13	13	14	23
8 Natural resources (not agric.)	1	1	2	2	2	2	2	2	2	2
a Regular	..	..	..	..	..	..	..	..	..	..
b Emergency	..	..	..	..	..	..	..	..	..	..
c Total	1	1	2	2	2	2	2	2	2	2
9 General government	9	9	10	10	8	6	6	6	5	5
10 All functions	119	114	176	169	139	32	39	107	293	488
a Regular	..	..	20	59	62	1,816	2,238	2,212	2,376	1,692
b Emergency	..	..	196	228	201	1,848	2,277	2,319	2,669	2,180
c Grand Total	119	114	196	228	201	1,848	2,277	2,319	2,669	2,180

BRIEF HISTORY OF GRANTS

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
1 Social welfare, health & security											
a Regular	267	305	359	410	429	466	440	476	784	882	1,083
b Emergency											
1 CWA	328	286	117	36	21	4				8	8
2 PWA	2										
3 FERA	1,929	1,400	1,162	874	265	6	5		3		
4 WPA						30	45	36	13	2	
5 Maternity & infant care	2,259	1,686	1,279	910	286	40	50	36	16	10	8
6 Total	2,526	1,991	1,638	1,320	715	506	490	512	800	892	1,091
c Total											
2 Transportation & communication											
a Regular	161	154	166	154	183	52	35	45	183	322	425
b Emergency	34	14	7	10		102	55	31	25	12	9
c Total	195	168	173	164	183	154	90	76	208	334	434
3 Housing & community facilities											
a Regular			5	44	10	10	10	21	27	10	3
b Emergency					109	124	119	84	367	44	6
c Total			5	44	119	134	129	105	394	54	9
4 Labor											
a Regular	62	62	67	72	55	36	34	56	102	133	140
b Emergency			60	111	131	73	45				
c Total	62	62	127	183	186	109	79	56	102	133	140
5 Agriculture & agric. resources											
a Regular	92	143	110	78	48	66	82	92	65	71	87
b Emergency											
c Total	92	143	110	78	48	66	82	92	65	71	87
6 Veterans services & benefits											
a Regular	1	1	1	1	1	1	1	20	30	85	31
b Emergency									29		
c Total	1	1	1	1	1	1	1	20	59	85	31
7 Education & general research											
a Regular	25	24	25	26	26	26	25	25	32	37	37
b Emergency											
c Total	25	24	25	26	26	26	25	25	32	37	37
8 Natural resources (not agric.)											
a Regular	3	6	4	5	9	7	8	8	10	11	14
b Emergency											
c Total	3	6	4	5	9	7	8	8	10	11	14
9 General government											
a Regular	5	6	6	6	6	6	6	6	8	12	12
10 All functions											
a Regular	616	701	743	795	767	770	640	750	1,242	1,563	1,832
b Emergency	2,293	1,700	1,346	1,031	526	239	270	151	436	66	23
c Grand Total	2,909	2,401	2,089	1,827	1,293	1,009	910	901	1,678	1,629	1,855

'social welfare, health and security' and for 'transportation and communication' grew to be of vast importance, not only because of their size but also because they fluctuated cyclically. In fiscal 1937 they were 98 percent of total grants (Table 2).

Table 2

Grants, Fiscal Years, 1929, 1937, 1945, Percentage Distribution by Purpose

	1929	1937	1945
Social welfare, health & security	2	85	54
Transportation & communication	72	13	10
Agriculture & agricultural resources	9	1	9
Other	17	1	27
Total	100	100	100

The figures for each of the other seven headings from 1929 to 1949 show that their record is one of erratic variation or of growth, often by jumps. The reasons for this behavior are disclosed by noting the purposes of these grants. The regular grants for 'labor' are for public employment offices and for the administration of unemployment compensation which, since they cover administrative costs, cannot be subject to wide cyclical variation. The sharp rise in 1941-43 is due to emergency grants for educating and training defense workers. Grants for 'housing and community facilities' consist chiefly of those for veterans' re-use housing which is strictly temporary. Those for 'veterans' services and benefits' also are temporary. The regular grants for agriculture and agricultural resources are for extension work and agricultural stations. The increase from 1938 to 1942 is due to heavy expenditure for the purchase of agricultural commodities for distribution through authorized agencies, i.e., grants-in-kind of surplus farm products. The grants for education and general research are for the promotion of vocational education and the land grant colleges, which grow when Congress liberalizes the appropriations. None of the above seven grants is discussed here.

Notes to Table 1

* See source note.

Sources: The figures for 1919-28, from H. J. Bitterman, *State and Federal Grants-in-aid* (Mentzer, Bush and Co., 1938), pp. 132-3, are not fully consistent with those for subsequent years, and Bitterman states that "several minor grants" could not be included. The figures for 1929-49 were prepared by the Bureau of the Budget and current annual figures appear as an appendix to the *Budget of the United States Government*. The Budget Bureau does not distinguish between regular and emergency grants, and in one important instance, I have altered its classification. It placed emergency grants for highways under the heading 'social welfare, health and security', whereas I have shifted them to 'transportation and communication'. During the 1930's a large portion of federal highway grants were emergency, and the decline in such grants shown by the Bureau is illusory.

2 GENERALIZATIONS

The history of federal grants indicates trends that are significant for this study. While use of grants began early, the programs were few and small until after World War I. Then as government took on more and more functions and the sources of revenue utilized by the federal government broadened, the states became more receptive to grants. They recognized a federal interest in the performance of functions which, constitutionally or historically, belonged to them. On the other hand, Congress saw a federal interest in functions that it had been content to leave entirely in state hands. Grants offered a middle of the road device, permitting the state and local governments to administer a function subject to federal conditions.⁵ And Congress had begun to impose a patchwork pattern of conditions, indicating that it was thinking about the objectives at which specific grants were aimed, although it had not yet visualized an integrated grant program.

The perplexities of a casual and piecemeal approach to grants do not appear to have been perceived either by Congress or state governments. Yet the offer of a grant for a function upon which state and local governments spend little or nothing stimulates their expenditures on it as compared with other functions. To some degree a federal judgment is substituted for a state-local with respect to the distribution of expenditure. Federal grants may also, as is borne out by events, generate a diversity in specific conditions to be met by the recipients, in mode of apportionment, and in administrative rules.⁶

⁵ The Hoover Commission has stated: "The plan [of federal grants] 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 grant-in-aid method has raised the level of all aided services, without transferring functions entirely to the National Government." *Federal-State Relations, A Report to the Congress by the Commission on Organization of the Executive Branch of the Government, March 1949, p. 30.*

⁶ In the reports of the Hoover Commission task forces criticisms along the lines indicated above are spelled out. For example, with respect to public health grants, the Task Force Report on Public Welfare (App. P), p. 150, declares that the legislation is diverse in "(a) expression of purpose, (b) specific provision, (c) mode of apportionment, and (d) conditions required to be met by the recipient." It recommends that more "administrative autonomy" be given to the states, that the categorical approach, which has led to heterogeneous laws and "deleterious effects on grantees and public", be altered in the direction of consolidation, that methods of apportionment of funds be reviewed and codified, etc. (pp. 165-7). Grants for education, by promoting special aspects of education, have developed "a state of curricular imbalance". The task force recommends elimination of detailed controls (p. 340). With respect to grants for public assistance, it suggests "abandonment of categories such as old-age assistance, aid to dependent children, and aid to the needy blind" and

The federal government has, however, sometimes offered grants with the primary intention of lightening the load borne by state-local budgets in the performance of a function but has not attempted otherwise to stimulate state-local action. This was the motive behind most of the early federal grants, particularly its land grants. The implication is that the function is well recognized and that state-local governments are, in general, making an adequate effort to perform it. The main federal purpose is *fiscal*.⁷

The distinction between the stimulative and fiscal effects of grants is important because it explains important differences in the philosophy of grants and, therefore, in suggestions for their reform. When the federal government is interested in stimulating state performance of a function, logically it must specify standards. The aided function must be set apart by definition from related functions, e.g., vocational must be distinguished from general education. Tests of performance, minimum levels of achievement, and matching requirements may be specified. In short, the federal government is interested in programming. Obviously in such cases the grants are not likely to relieve state budgets. On the contrary, federal aid is an inducement to states to expand expenditures. It follows also that, when the federal government is interested in standards, its grants cannot logically be restricted to the poorer states. The federal judgment is that the function is being underperformed not merely for the fiscal reason of lack of state funds, but because of the inability of the states to appreciate the national interest in the function. An example is aid to highways. Here the federal government wanted more and better highways in all areas; it was not prepared to allow the states, rich or poor, to proceed at their own pace and by their own methods.

When, however, the federal government has primarily a fiscal objective, it will be little concerned with imposing standards. For example, all bills proposing aid to education have disavowed the need and desirability of federal conditions. The assumptions are that whatever deficiencies may mar state-local performance are due to lack of money and that grants will enable the poorer states to remedy the deficiencies. In such cases, federal aid can be confined to the poorer states.

substitution of "block grants for public assistance, leaving the States a considerable measure of discretion as to the extent to which they will use categories" (p. 530). See also the Report of the Hoover Commission itself, p. 31, and Report on Federal-State Relations to the Commission on Organization of the Executive Branch of the Government, 81st Congress, 1st Session, *Senate Document 81* (Washington, 1949), pp. 54-9, 76.

⁷ The result of such a grant is, of course, more of the function than would otherwise be provided, but the only federal pressure to this end is fiscal.

The distinction between the stimulative and the fiscal effects of grants is blurred because, in fact, many grants have a dual purpose. Introduction of a new grant means, in the short run, that a fiscal burden is lifted from all states where the function is already being performed. Before long, however, expansion may more than cancel the relief.

3 THE PROBLEM TO BE INVESTIGATED

Except with respect to emergencies, federal intervention by grants has not taken account of cyclical fluctuations in business activity. Grants have been regarded as a technique by which the federal government could recognize a national interest in certain governmental functions which, for reasons of administration or tradition, were a state-local responsibility. They left the location of the functions undisturbed, while giving stimulus and financial support to their performance. Even emergency grants have been similar in form to regular grants and different chiefly in that the appropriations have not been on a continuing basis. Might not the form of federal intervention, in some cases, be so framed as to recognize that some state-local functions in which there is a national interest are affected by cyclical fluctuations? It may not suffice to set up grants that will enable programs to be established and maintained in a *normal* year. Grants should perhaps be designed to assist state-local governments to provide the services adequately in a year of depression when their fiscal capacity is impaired. In short, two closely related questions should be examined: Does the need for the services the federal government is aiding by grants vary cyclically? Does the ability of state-local governments to render the services vary cyclically? If, in depression, the need for a particular grant service on the part of recipients greatly increases, while state-local capacity to handle it diminishes, serious difficulties may ensue. If, in prosperity, the need for a particular grant service diminishes, it may be desirable to shift more of the expenditure to state-local governments. Flexibility with respect to grants might serve a countercyclical purpose and also place the services on a more assured basis, in both prosperity and depression.

Congress recognized the emergency use of grants during the 1930's because it believed that the depression warranted extension of grants and of grant techniques beyond what is appropriate to a normal period. Can the pattern and techniques of grants to be used for an emergency be worked out in advance in order to minimize the area of improvisation? If they can and if statutory provision can be made, most emergency grants would deserve that title only because they came into active operation with the emergency and were quiescent in easy times. Some types of emergency, such as war, might not be susceptible to advance preparation. But prepa-

ration to meet the emergencies occasioned by depressions may be more feasible. If so, Congress might be able to avoid such shifts in policy as occurred in 1933-35 when it moved from a grant program (FERA) to a program of direct federal expenditures (CWA), and back to a program (WPA) that was a mixture of the two.

Examination of the cyclical features of federal grants suffers from the handicap of the short period during which grants have been of significant size. Until after 1929 total payments were so small that they could not greatly affect state-local finance. Moreover, the Bureau of the Budget has not prepared official figures of federal grants before 1929. This study examines the quantitative evidence back to 1919, but the inadequacy of the material before 1929 means that most attention is focused on what has happened since. The two decades 1929-49 embrace a depression which was very severe in amplitude and duration, an incomplete revival halted in 1937 by a moderate depression, and twelve years distorted by war and reconversion. While this historical record is brief, it does suggest certain tentative conclusions concerning the cyclical aspects of federal grants.

Appendix: Definitions and Terms

1 MEANING OF A FEDERAL GRANT

Federal grants are payments to state and local governments and are usually subject to certain conditions. This definition excludes such federal payments as shared revenues and payments in lieu of taxes because they are not subject to conditions.¹ Whether it includes or excludes expenditures by WPA on nonfederal projects, i.e., those financed jointly by the federal and by state-local governments, is debatable. These payments were made through federal officers and did not go to officers of state and local governments. But in terms of other important characteristics, they were similar to grants and unlike most federal expenditures. They were for state-local

¹ In absolute amounts shared revenues and payments in lieu of taxes are not important. In fiscal 1948 they amounted to \$16,001,000, of which those under the Mineral Leasing Act, the National Forest Act, and the TVA make up 80 percent (Table 3). Payments under the Mineral Leasing Act are 37½ percent of the gross proceeds of royalties and rents from mineral leases granted on public lands; those under the National Forest Act are 25 percent of gross receipts from forest reservations; those from TVA are a percentage of gross receipts from the sale of power. Ten states (Arizona, California, Colorado, Mississippi, Montana, Nevada, New Mexico, Oregon, Washington, Wyoming) receive 80 percent of the payments.

Table 3

Shared Revenues and Payments in Lieu of Taxes, Fiscal Years, 1929-1949
(thousands of dollars)

	Total	Mineral National		TVA	Total	Mineral National		TVA	
		Leasing Act	Forests Fund			Leasing Act	Forests Fund		
1929	3,621	1,820	1,351		1939	4,988	2,637	1,136	243
1930	4,091	1,388	1,565		1940	4,806	2,153	1,178	528
1931	4,310	1,777	1,678		1941	6,711	1,948	1,440	1,449
1932	3,454	1,317	1,241		1942	7,642	2,165	1,539	1,859
1933	2,078	1,208	586		1943	8,171	2,563	1,669	1,960
1934	2,228	1,215	651		1944	9,994	2,689	2,476	2,169
1935	2,369	1,202	568		1945	12,887	4,086	4,139	2,137
1936	2,698	1,474	817	45	1946	12,418	3,771	4,003	1,992
1937	3,052	1,632	996	71	1947	11,165	3,747	3,424	1,668
1938	4,343	1,945	1,215	93	1948	16,001	5,684	4,577	2,006
					1949	21,243	9,535	5,983	2,050

Source: Mimeographed releases of the Bureau of the Budget 1929-48 and the *Budget of the United States Government*, 1948 to date.

functions and their effect was to lift burdens from state-local budgets; state and local governments acted as sponsors of projects to WPA; responsibility for the supervision of the construction of accepted projects fell chiefly upon the sponsors; the sponsors put up part of the money. Exclusion of WPA expenditures on its nonfederal programs would distort the statistical picture of what happened during the depression. When WPA was set up in 1935 it was a partial substitute for FERA, which operated through grants. The sharp decline in grants by FERA after 1935-36 is, in a sense, illusory because it was offset by expansion of expenditure by WPA for similar purposes. On these practical grounds it seems proper to include nonfederal WPA expenditure as grants.²

2 CLOSED VS. OPEN-END GRANTS

For closed grants Congress makes an annual appropriation which it distributes among the states according to certain criteria of need. For example, highway mileage, population, and state area are criteria for highway grants. In recent grants state per capita income has been a criterion on the assumption that a low figure indicates a high need. These criteria, by themselves, merely measure *relative* need: they show how a given annual appropriation will be distributed among the states. The annual appropriation reflects

² This approach means, however, that total federal grants cannot be split precisely into those to state governments and those to local governments. The reasons are that WPA expenditures cannot be so divided, that the Bureau of the Census did not prepare figures on state finance 1933-36 and that local financial figures are available only for a very few years.

Congressional judgment concerning over-all federal interest in the aided function. For closed grants Congress has not usually adjusted the appropriation annually, although this might readily be done. On the other hand, in some very important cases, notably public assistance, Congress gives an open-end grant by not setting a *specific limit* on the annual total it will appropriate or any limit on the annual sums to go to each state. The effective limit is determined by setting a ceiling on the amount to go to the individual recipient, e.g., \$50 monthly to a person eligible for old age assistance. The so-called 'open-end' grant, supposing individual eligibility to be fairly defined and measured, should lead to an increase and decrease of grants according to variation in need. In effect the open-end grant binds Congress to appropriate the required amount.

3 MATCHING REQUIREMENTS

Another feature of grants that determines the amounts going to states is the matching requirement. The earliest grants and a few recent grants did not make such a requirement. A notable present instance is grants for the administration of unemployment compensation, which are 100 percent federal grants amounting in fiscal 1948 to \$67,200,000. Since such grants do not put a burden on state-local budgets, it would seem that they might be used to lift existing expenditures. But this is very doubtful. The difficulties experienced with the 100 percent grants for the administration of unemployment compensation suggest that the device be limited to short-run emergency functions, e.g., administration of veterans' readjustment benefits.³

The most common matching requirement is 50-50, reflecting the general philosophy that an equal federal sharing with the states in the performance of specific functions is reasonable. Recently, however, most proposals for new grants or for modification of old grants have favored varying the federal percentage so as to favor the poorer states. In part the argument runs that, even if, for the states as a whole, the federal interest is 50-50, it varies from state to state and is greater for the poorer states so that variable

³ This issue is discussed by R. C. Atkinson, *The Federal Role in Unemployment Compensation Administration* (Social Research Council, 1941), p. 52, who states that "to assign broad administrative authority to states without requiring them to bear a substantial part of the cost is anomalous and, in spite of federal efforts, potentially dangerous". A similar opinion is expressed by Bitterman, *State and Federal Grants-in-Aid*, p. 143. The Council of State Governments in its *Federal Grants-in-Aid* (1949), pp. 131-2, declares that the 100 percent grant for the administration of unemployment compensation "has been a source of constant disagreement between state and federal officials", and quotes Arthur Altmeyer, Federal Commissioner for Social Security, as testifying that the grants are "basically unsound".

IMPORTANT FEDERAL GRANTS NOT REQUIRING STATE MATCHING, FISCAL 1948
(millions of dollars)

Administration of veterans' readjustment benefits	24.2
Administration of unemployment compensation	67.2
Administration of public employment offices	65.9
District of Columbia	12.0
Public works advance planning	7.1
Purchase of commodities for distribution through authorized agencies*	35.0
Total	211.4

* The federal government buys commodities from farmers and distributes them to state and local institutions as a grant-in-kind. The amount reported as a grant is "the value of the commodities distributed rather than the expenditure for the original purchase". *Budget of the United States Government, Fiscal Year 1950 (1949)*, p. 1369.

ratio or equalizing grants are in order. The basis suggested for varying the ratio is usually state per capita income, but its acceptance does not settle other issues of which the most important is the range of the ratios. Specific schemes for variable ratio grants are examined below where the additional question is raised: should the grant ratios be variable at different cyclical phases as well as among the states at a specific time?