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Intergovernmental PERSPECTIVE

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

View From The Commission

Dear Reader:

Regional growth and development is a priority issue at the Department of Commerce. As the lead agency for the 1978 White House Conference on Balanced National Growth and Economic Development, the Department worked with many government agencies, public interest groups, academics, labor leaders and private citizens to identify the issues and discuss possible solutions to some of the problems facing the regions of our country. As was evident at the Conference, the issues are complicated and the solutions difficult and prolonged in nature.

The Advisory Commission on Intergovernmental Relations' (ACIR) examination of regional economic growth and development, particularly long-term goals, is most welcome, as is this issue of *Perspective,* devoted to ACIR's preliminary findings. When completed, the study should provide useful information on wealth, population, employment and other economic indicators for the various regions, and the effect of federal grants and federal dollars on regional trends.

We look forward to the ACIR's final report, which will include an evaluation of the effect of interstate tax competition on industrial location and an examination of claims that federal bias in program funding leads for example, to regional cost-of-living differentials that are not reflected in federal aid formulas.

The federal government must play a sensitive role to the Federal system, setting national objectives while recognizing the special characteristics of particular regions. The White House Conference proposed stronger State-Federal Regional Commissions as a way of achieving legitimate national objectives while reflecting the realities of regional differences. ACIR is playing an important role in expanding public understanding of these regional differences.

Juanita M. Kreps

Secretary, Department of Commerce

Intergovernmental PERSPECTIVE

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Intergovernmental Focus

National and State Urban Policies Continue to Inch Toward Reality

Seven months after President Carter's urban policy was unveiled with considerable fanfare, major elements which make up the ambitious agenda still remain in legislative limbo. While many of the new legislative proposals and appropriations requests passed in some form during the waning days of the 95th Congress, at least five key proposals will be held over until next year.

Those programs and money measures which passed in at least some form this session include: investment and employment tax credits, reauthorization of the *Comprehensive Employment and Training Act* (CETA), Title XX social services, urban parks and recreation, neighborhood self-help, housing rehabilitation loans (Section 312), "livable cities" community arts funding, urban transportation, and neighborhood crime prevention programs.

The five key components which did not pass are:

- ☐ the state incentive program (described by the Administration as being "very critical to the overall success of the urban policy");
- ☐ a national development bank, designed to provide a number of financing tools to businesses which remain, locate, or expand in distressed urban and rural areas;
- ☐ renewal of the $1 billion a year anti-recession fiscal assistance program;
- ☐ a "labor intensive" public works program that would target $1 billion annually to high unemployment communities; and
- ☐ reauthorization of the Law Enforcement Assistance Administration (LEAA) with a new emphasis on targeted funds to major local jurisdictions.

Where the executive branch is able to act administratively, the results would appear to be more impressive. A recent White House report, for example, outlined numerous agency actions designed to target and reorient federal assistance programs to urban and community needs, to intensify inter- and intra-agency coordination, and to streamline administrative processes and requirements. Additionally, the President has signed four executive orders related to the urban policy.

Two of the orders deal with federal procurement and facility location practices. Under provisions of the directives, priority is to be given to the location of federal facilities in central business and surrounding urban areas, while federal procurements are to be targeted to areas of high unemployment.

A third order establishes a new internal management process in the form of "urban and community impact analyses." Under the procedure, the Office of Management and Budget and the White House Domestic Policy Staff will coordinate federal agency analyses of the impact of proposed programs and policies on cities, counties and other communities. An "interim" process now being implemented as part of the FY 1980 budget cycle will focus only on new proposals and significant changes in existing programs. A full scale assessment process is anticipated for the FY 1981 budget cycle.

The final order creates an Interagency Coordinating Council that will be chaired by Jack Watson, Assistant to the President on Intergovernmental Affairs. The new council is composed of representatives of the major domestic agencies and has been charged with overseeing the implementation of the President's urban policy and with facilitating interagency and intergovernmental cooperation.

The recent increase in state activity on local growth and development issues challenges the conventional wisdom that the states are indifferent, if not patently hostile, to urban and community-related problems. At present, state governments offer a variety of local development policies and programs ranging from the sharing of surplus state revenues with financially pressed localities to the initiation of neighborhood rehabilitation efforts and the institution of community-based citizen forums to influence state planning efforts. Admittedly, many of the states' actions on local growth and development matters are in the planning or pilot phase. Still, the current crop of state initiatives indicates that some states are developing thoughtful proposals to address long-rooted community ills. For example,

- ☐ In Massachusetts, an economic development package of six bills was enacted, designed to expand local use of tax-exempt industrial revenue bonds, provide tax incentives for inner-city job creation, and extend the scope of the state's mortgage guarantee program. The package also created three new state agencies to promote economic development.
- ☐ Colorado established a task force on neighborhoods to recommend state actions on the neighborhood conservation front.
- ☐ In Louisiana, a new "Cooperative Economic Development Law" was enacted this year. The act authorizes the creation of nonprofit economic development corporations at the local level upon the approval of the chief local executive officer or the governor and after approval of the local governing body.
- ☐ Connecticut and Massachusetts passed measures in 1978 significantly increasing state aid to localities. Kansas enacted a new state revenue sharing measure.
- ☐ In Hawaii, a comprehensive state plan has been issued that sets forth the basic goals, objectives and policies for that state in the development of its human, physical, economic and development program activities.
- ☐ Kansas recently held a statewide citizens' conference to identify key problems and priority needs related to long-term development in the state. The deliberations and recommendations of the con-

ference will form the basis of a report to the governor for executive use and proposals to the legislature.

- ☐ In Tennessee, a governor's conference on economic and community development is planned for later this fall.

Cigarette Bootlegging Bills Pass House and Senate

Legislation designed to reduce cigarette bootlegging has passed both houses of Congress and is awaiting signature by the President. Final action on the bill's conference report took place Oct. 15th at the close of the 95th Congress.

The federal enforcement measure implements the Commission's recommendation that the Congress "give early and favorable consideration to legislation prohibiting the transportation of contraband cigarettes in interstate commerce." The new law will provide, for the first time, federal enforcement assistance to state authorities attempting to eliminate the contraband problem.

Cigarette bootlegging, which is both a tax loss and a criminal justice problem, was examined in the Commission report *Cigarette Bootlegging: A State AND Federal Responsibility.* The Commission found that in 1975 the bootlegging tax loss for all states approached $400 million. Testimony offered at an ACIR hearing indicated that organized criminal groups play a significant role in the transportation and sale of the contraband cigarettes.

The newly enacted legislation limits U.S. jurisdiction to single shipments of 60,000 cigarettes or more. The law applies antiracketeering statutes to such shipments of contraband cigarettes and would make those convicted of the offense subject to five-year prison terms, $100,000 fines and loss of shipments.

The final version of the legislation eliminated reporting requirements, but listed very specific information on the purchases and quantities of cigarettes to be maintained on existing business records.

In 1978, several states attempted to alter their cigarette tax rates. In 20 state legislatures, a total of 45 bills were introduced to increase the state cigarette taxes. Only West Virginia enacted such a measure, raising its state cigarette tax from 12¢ to 17¢ per pack.

Five state legislatures considered a total of 15 bills to reduce cigarette taxes. Only Colorado reduced its cigarette tax, from 15¢ to 10¢ per pack. Three states considered legislation to apply municipal cigarette taxes, but none of these measures was enacted.

Several states have attempted to deal with the problem by exerting greater efforts to control the illegal trafficking. Pennsylvania, which in 1975 suffered an estimated $35.6 million loss due to cigarette tax evasion, has been particularly active in this area.

On July 1, the state acted to stiffen penalties for a range of illegal cigarette-related activities. The penalty for cigarette sales without a license was raised to not less than $250 nor more than $1000 plus the cost of prosecution, or a maximum 30 days imprisonment, or both. The penalty for the sale of unstamped cigarettes was amended to require those convicted of the felony to pay a fine of not more than $15,000, plus the cost of prosecution or to serve a prison term of not more than five years, or both. The recent legislation also increased the penalty for possession of 1,000 or more unstamped cigarettes to not less than $1,000 nor more than $1,500 and cost of prosecution, or imprisonment for not more than 3 years, or both.

Pennsylvania also encourages the reporting of cigarette bootlegging activities by a toll-free telephone line by which bootlegging information may be given to the state's Department of Revenue. A 50¢ per carton reward is offered for cigarettes confiscated as a result of such a phone tip.

Pennsylvania Supreme Court Validates Legislative Appropriation of Federal Funds

After two years of litigation the Pennsylvania Supreme Court has ruled that the state legislature does indeed have the power to appropriate federal funds. In affirming a lower court decision in *Shapp v. Sloan,* the supreme court concluded that there was "no legal basis" for the assumption that federal funds are not subject to the General Assembly's appropriation power.

At issue in the case was the validity of two 1976 legislative enactments. The first act, passed over the governor's veto, requires that federal funds be deposited in the general fund, and thus be subject to appropriation by the legislature. The second act was designed to implement the first measure and calls for line appropriations of federal funds to specific programs. The court's challenge arose when the state's treasurer refused to release federal funds for a special prosecutor's office because there was no legislative appropriation for the office.

The state supreme court, in upholding the validity of the two acts, noted: "The framers (of the state consitution) gave to the General Assembly the exclusive power to pay money out of the state treasury without regard to the source of the funds. In contrast, nowhere in our Constitution is the executive branch given any right or authority to appropriate public monies for any purpose . . . The constitution says 'no money' shall be paid without an appropriation. We think the constitution means exactly what it says."

The court rejected a plaintiff argument that legislative appropriation of federal funds violated the separation of power doctrine and encroached on the duties of the executive. To this charge, the court said: "It is the General Assembly, not the executive branch, which has been given the constitutional power to determine what programs will be adopted in our Commonwealth and how they will be financed. The executive's function is to carry out these programs authorized by legislation."

The court considered and disclaimed the view that the law vio-

lated the supremacy clause since there was "no clear and direct conflict" between state and federal law. The plaintiffs also argued that passage of the law violated a contract between the federal grantor agency and the state grantee agency. To this, court answered: "grants are not contractual in nature but are better classified as conditional gifts.

"The federal funding system is, in essence, one of a voluntary cooperative effort between two governments to provide needed services for their citizens. The federal government supplies the funding while the state government plans and administers the programs. This cooperative venture is not based upon those rights and duties of an obligatory nature, enforceable in a court of law, which characterize a contractual relationship."

In other action, the governor and legislature in Alaska mutually have agreed to the dismissal of the *Kelley v. Hammond* case filed early last year. The case centered around a number of issues regarding the roles of the governor and the legislature's budget and audit committee in dealing with federal funds when the legislature is not in session. The case was dismissed since both parties agreed that the voters would decide the issue in November by agreeing to or rejecting a proposed constitutional amendment to permit a legislative interim committee to work with the governor in dealing with budget amendments when the legislature was out of session.

Montana voters will consider a similar constitutional amendment in November which would authorize a joint interim committee of the legislature to approve or reject budget amendments to spend funds not appropriated during the preceding session. Unlike Alaska's proposal, the Montana measure does not include a gubernatorial role. Like Alaska, the Montana amendment was precipitated by a court decision *(Montana ex. rel. Judge v. Legislative Finance Committee,* 1975), which held that delegation of legislative authority to an interim committee was unconstitutional.

Tracking of federal funds coming into the state and oversight of applications for those funds are issues in several states. Missouri, South Carolina, and Illinois recently enacted measures calling for state agency applications for federal funds to be reported and considered by relevant legislative committees. Other states, including Kentucky, West Virginia, and Minnesota, are studying various approaches to tracking and appropriating federal funds.

State-Local Issues are Key Concern In Several States During 1978

In state houses across the country and in the nation's capitol, state and local interests clash on a regular basis. While these clashes are part and parcel of our intergovernmental *system, cooperation and coordina*tion, rather than conflict, should be an objective.

Over the last few years, several states have acted to relieve some of the customary tensions through establishing mechanisms to identify and address both current and future state-local problems. Actions in 1978 in this area include:

In Indiana, a local governmental study commission has been established by statute to review the organization, financing, and administration of localities. The 20-member, bipartisan group is to prepare an interim report for the governor and legislature by January 1979, with a final report due for the 1981 session.

The Rhode Island legislature established an intergovernmental relations council composed of local officials, state executive and legislative representatives, and citizens to serve as a neutral forum to explore a broad range of intergovernmental and public policy issues. The new council will address such concerns as state-local planning and policy development, local government structural and fiscal patterns, state delivery of services, and the impact of federal aid programs.

The North Carolina Local Government Advocacy Council was created by executive order this year to serve as the "focal point" for state-local relations and communications and to advise the governor and his cabinet on the development and implementation of programs directly impacting on local governments. The 15-member panel already has undertaken a review of the state's regional organizations and will be reviewing proposed balanced growth and urban strategy plans in the coming months.

In Vermont, the governor has established a conference on state-*local intergovernmental relations.* The conference is to undertake a six-month study of the decision-making and problem-solving capacities of state, regional and local units. It is under the direction of a 15-member committee composed of state and local executive and legislative officials, and private citizens.

The Louisiana legislature, pursuant to that state's sunset law, has re-established the Governor's Commission on Intergovernmental Relations within the urban and community affairs department. The legislature also broadened the powers of the Joint Legislative Commission on Intergovernmental Relations to establish advisory committees to study federal actions which encroach upon the rights of the state and to hold public hearings and investigations. And, the state senate, by resolution, created its own committee on intergovernmental relations composed of the senate president—who will serve as chairman—and five members appointed by him.

In Kansas, a new intergovernmental relations section has been created within the department of state planning and research. The new section will review local government structural and functional issues, administer state and federal aid to local and regional units, and generally evaluate the impact of state policies on the operations of local governments.

Significant legislation restructuring county government in Kentucky

and Tennessee was enacted in the past few months. And, voters in Iowa and Florida will consider constitutional amendments in November impacting upon county government.

ACIR is currently conducting a survey of state ACIRs and local government study commissions and will issue a report early next year.

ACIR Updates Count of Categorical Grants

As of January 1, 1978, there were 492 federal categorical grants available to state and local government. The newest ACIR count is an increase of 50—or 11%—over the 442 reported as of January 1, 1975, in the ACIR volume, *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975.*

Of these 50, 26 were project grants; 24 were formula grants. The project grant total reflects 64 new project grant programs (through congressional enactment or funding of previously authorized, but unfunded, programs) and the discontinuance, replacement, or termination of 38 programs funded in 1975. Likewise, there were 37 formula grant programs added and 13 terminated or discontinued. The 37 added programs tended to include total population as a factor more often in the allocation formulas than was the case with the dropped programs; personal income was included less frequently. Program need was incorporated in the formula more frequently in the new than in the discontinued programs.

As a percent of the total, formula-based grants increased slightly—from 33 to 34.6% with the proportion of project grants decreasing by a corresponding 1.6% of the total. A subgroup comprised of project grants subject to formula distribution experienced the greatest change as a proportion of the total—from 7.9 to 9.6%.

The functional areas which experienced the largest increase in numbers of programs were pollution control and abatement (12), area and regional development (9), research and general education aids (8), health (7), and energy (6). The largest decrease occurred in the elementary, secondary, and vocational education area where there was a net loss of eight programs.

Analysis of these categorical grants changes and a listing of the January 1, 1978, count of federal categorical aid is contained in ACIR's upcoming report, *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1978.*

Federal Aid Monitoring Project Submits Interim Report to President

On September 8, an interim report from ACIR's Federal Assistance Monitoring Project was delivered to President Carter. This report, which focused on implementation of the President's September 9, 1977, grant reform memorandum, was based on data collected from the 17 state and local administrators who make up the monitoring project panel.

The panel's report, based on discussions held at three sessions, noted a "mixed" but "disappointing" record of agency and departmental compliance with the provisions of the grant memorandum. This uneven record was apparent for each of the practices covered in the 1977 memorandum, including:

☐ application, reporting, and planning requirements;
☐ financial management practices;
☐ audit procecures; and
☐ development of regulations.

The panel reserved comment on Administration efforts to simplify requirements to fulfill national goals until these projects are further advanced.

To encourage better agency compliance with the memorandum's provisions, the monitoring panel forwarded to the President the following three recommendations relating to grant administration:

☐ The President should reissue the grant reform memorandum as an executive order and designate the Office of Management and Budget or another central management agency to monitor its implementation.

☐ The President should establish a formal communication mechanism for comment by state and local officials on the development of new or revised federal regulations. This process should clarify how and by whom public interest groups, A-95 clearinghouses, citizen groups, and individual state and local officials should be consulted.

☐ The President should further standardize and simplify the grant application process by permitting the submission of a single set of assurances as part of an annual jurisdictional certification for requirements which are generally applied to grant-in-aid programs. Furthermore, jurisdictional profiles containing statistical and narrative information generally required in grant applications should be placed on file with each agency annually.

The panel expressed support for President Carter's advance appropriation proposals and submitted a fourth recommendation calling for continued Presidential efforts to foster this approach to providing assistance to state and local governments.

Throughout their discussion the panel members emphasized that an adequately staffed, authoritative central management arm is a prerequisite for sustained improvement in intergovernmental grant management.

At its fourth and final session in Washington in late October, the monitoring panel considered the impact of state pass-throughs on federal aid administration; program candidates and implementation strategy for advance appropriation of federal funds; the impact of federal mandates on recipient administrative practices; and emerging grant reform issues.

A final report to the President will be issued following the October panel meeting. Meanwhile, copies of the interim report are available upon request.

Frostbelt and Sunbelt: Convergence Over Time

by Janet Rothenberg Pack
with the assistance of
Gordon Folkman

Popular and academic concern with regional issues, frequently referred to as "Frostbelt and Sunbelt" or "The Second War Between the States," has mushroomed over the past few years, with the spotlight focused principally on the diverse economic trends among the nation's regions. Advocates from the Northeast and Midwest have united to press their claim for a greater share of federal funds and for regionally differentiated economic policies which would favor their older industrial areas. Spokesmen for the South and Southwest, however, argue that despite substantial economic gains in the last decade, their regions remain relatively poor and should continue to benefit from federal policies.

Up until the 1960s, differing rates of regional economic growth, with the "poorer" states growing more rapidly, were considered a positive step in the desired direction—toward greater equality among regions, with concomitant greater efficiency in use of resources for the national economy as a whole. If anything, the authors of earlier studies argued that change had occurred too slowly.

Since that time, questions have arisen as to the desirability of what has been described as "an accelerating national shift of people and industry in a southerly direction."[1] By 1976, new terminology had been coined—Frostbelt and Sunbelt—and differential regional economic development was seen as a cause for serious concern, particularly by persons in the older industrial area of the nation. The inference they draw from the trends is that the nation is moving not to a long-term equilibrium position but to a new set of regional disparities, to a future in which the better-off regions of the Northeast and Midwest will be the poorer regions and the Southeast and Southwest the richer regions.

An analysis of regional growth and development over this century clearly reveals two trends: convergence and decentralization. Per capita income and ratios of federal revenues and expenditures by state are converging over the long pull—at rates which have slowed considerably in the past few years. At the same time, there has been a definite decentralization of economic activity away from the earlier industrialized states, toward the "newer," less developed sections of the country.

These two trends are key elements in the ACIR's initial work in the area of regional economic growth and are highlighted in this article, which traces major patterns of regional change over the past 25 to 75 years. The research represented here will be followed by evaluations of the effect of interstate tax competition on industrial locations and an examination of assertions about federal aid bias, attributed, for example, to regional cost-of-living differentials which are not reflected in federal aid formulas.

This and other ACIR work highlight the long-term regional movements since it is the long-range picture rather than experience of recent years that will likely prove the more successful predictor of future developments. The longer-term picture makes clear the irony that at the time when we as a nation are seemingly most concerned with differential regional economic growth, these differences have actually narrowed.

Growing Regional Equalization

Per capita income. One of the most dramatic indicators of growing regional equalization is the convergence in per capita income over the past 50 years.

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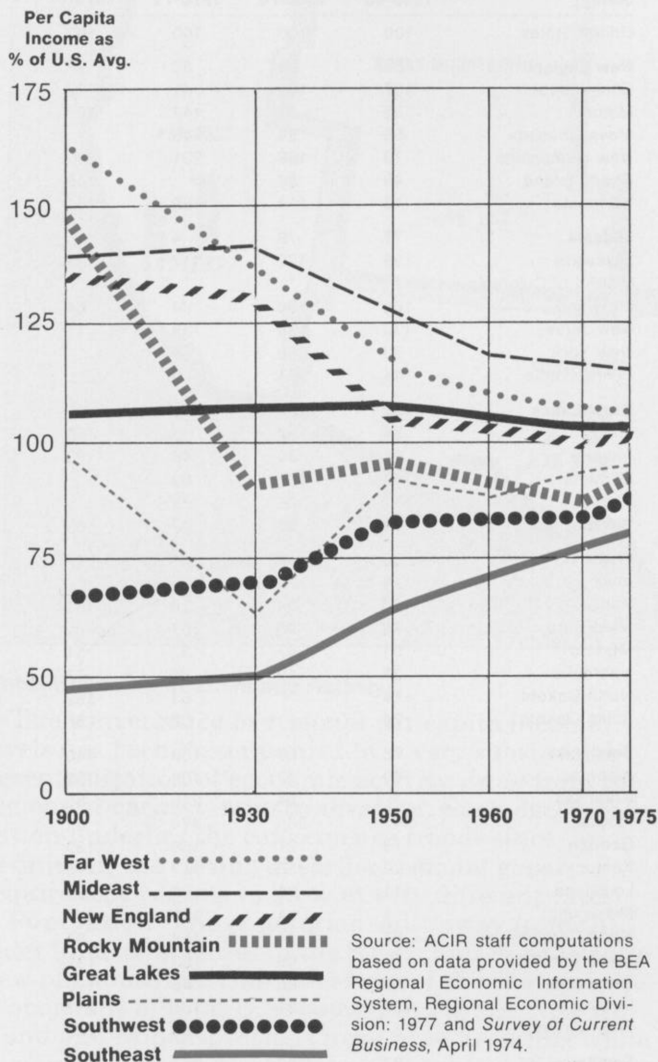
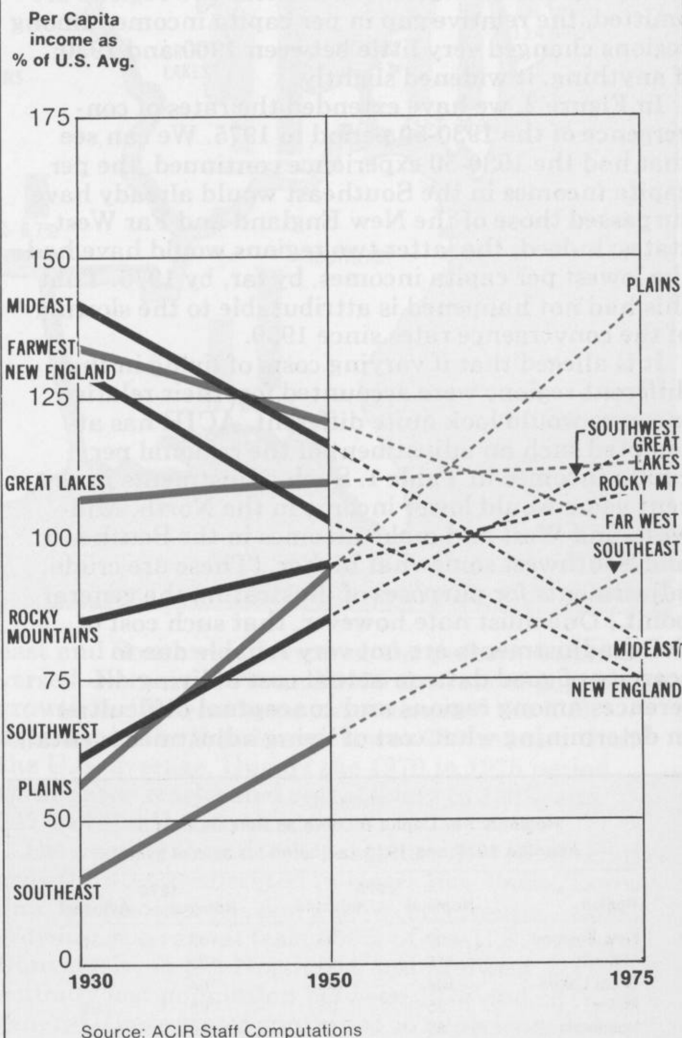
[1]John E. Petersen, "Key Trends of the Seventies," Part I of *Frostbelt vs. Sunbelt* (Special Report, First Boston Corporation, 1977, p. 3.



Source: ACIR staff computations based on data provided by the BEA Regional Economic Information System, Regional Economic Division: 1977 and *Survey of Current Business*, April 1974.



Source: ACIR Staff Computations

The rich regions—Mideast, Far West,[2] New England, and Great Lakes—have become relatively less rich, and the poor regions—Southeast, Plains, and Rocky Mountains—have become less poor. In 1930, per capita incomes in the Mideast, Far West, and New England states were 30 to 40% above the U.S. average; in the Southeast they were only half the U.S. average. Put another way, per capita incomes in the richer regions were nearly three times those in the Southeast. By 1977, these multiples had decreased considerably. The highest regional per capita incomes, in the Far West, were only 11% above the national average; and the lowest, in the Southeast, were only 14% below the national average.

Nonetheless, the ranking of the states is not very different in 1977 from what it was in 1930: the Far West, Mideast, and New England states are among the four highest income regions in the nation, and the Plains, Southwest, and Southeast are the three lowest per capita income regions.

The greatest rates of convergence in per capita income among regions occurred between 1930 and 1950 (see Figure 1). Since then, the rates have slowed substantially. In fact, predictions for the 1970s made on the basis of the observed patterns of the 1930 to 1950 period would have led to very substantial overestimates of the relative incomes of the

[2]The extremely high per capita incomes in the Far West and Rocky Mountain States at the turn of the century undoubtedly reflect the unusually high prices in those relatively isolated regions at that time.

states of the Southwest and the Southeast and serious underestimates of the relative incomes of the New England and the Far West states.

Although the period before 1930 was one of overall convergence, this was due almost entirely to the change in the relative position of the Far West and Rocky Mountain states. When these two regions are omitted, the relative gap in per capita incomes among regions changed very little between 1900 and 1930; if anything, it widened slightly.

In Figure 2, we have extended the rates of convergence of the 1930-50 period to 1975. We can see that had the 1930-50 experience continued, the per capita incomes in the Southeast would already have surpassed those of the New England and Far West states; indeed, the latter two regions would have had the lowest per capita incomes, by far, by 1975. That this had not happened is attributable to the slowing of the convergence rates since 1950.

It is alleged that if varying costs of living in the different regions were accounted for, their relative incomes would look quite different. ACIR has attempted such an adjustment of the regional per capita incomes in Table 1. Such adjustments in recent years would lower income in the North, Midwest, and West and make incomes in the Southeast and Southwest somewhat higher. (These are crude adjustments for purposes of illustrating the general point.) One must note however, that such cost of living adjustments are not very reliable due to scarcity of good data on actual cost of living differences among regions and conceptual difficulties in determining what cost of living adjustments entail.

Table 1

Regional Per Capita Income as Percent of U.S. Average 1970 and 1975 (adjusted for cost of living)

Region	1970		1975	
	Nominal	Adjusted	Nominal	Adjusted
New England	100	96	103	89
Mideast	113	104	109	100
Great Lakes	104	103	104	102
Plains	95	96	98	99
Southeast	82	92	86	93
Southwest	89	96	93	99
Rocky Mountain	91	93	94	98
Far West	111	106	111	106

Source: ACIR computations based upon state per capita income adjusted for cost of living in Fredrich J. Grasberger, "Developing Tools to Improve Federal Grant-in Aid Formulas," (Formula Evaluation Project, Preliminary Report #3, Center for Governmental Research, Inc., Rochester, N.Y.), 1978.

The Impact of the Federal Government. A second area of convergence over the last 25 years relates to federal expenditures in regions compared to federal revenue received from those regions. The differences in these ratios among regions have steadily narrowed—due primarily to increased taxes paid by the relatively poorer regions as their incomes have increased, rather than to any significant shifts in federal spending policies. The accompanying article by I. M. Labovitz further describes these key findings.

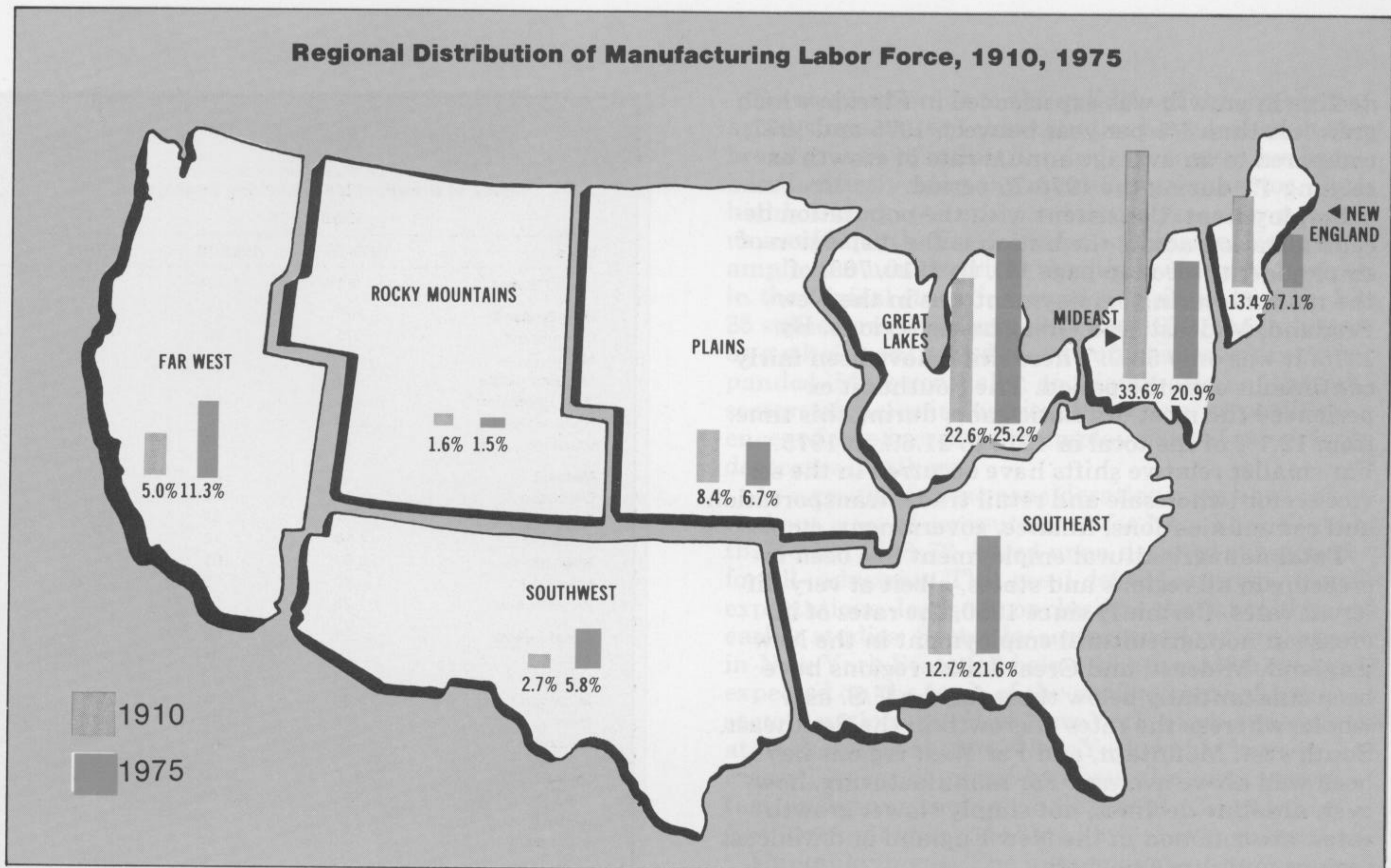
Table 2

Average Annual Rate of Growth of Population Indexed on U.S. Average 1950-1975

State	1950-60	1960-70	1970-75	1975-77
United States	100	100	100	100
New England	69	98	56	28
Connecticut	137	150	41	27
Maine	35	18	142	158
Massachusetts	56	84	45	*
New Hampshire	79	166	231	243
Rhode Island	49	89	*	55
Vermont	15	114	129	164
Mideast	77	78	4	*
Delaware	199	172	117	33
District of Columbia	*	*	*	*
Maryland	165	198	94	64
New Jersey	133	138	39	11
New York	73	68	*	*
Pennsylvania	44	34	3	*
Great Lakes	99	88	33	13
Illinois	84	82	3	58
Indiana	96	89	48	23
Michigan	118	106	69	*
Ohio	117	76	20	*
Wisconsin	83	93	92	63
Plains	52	48	41	77
Iowa	28	22	31	*
Kansas	76	24	18	167
Minnesota	78	90	67	82
Missouri	51	67	37	51
Nebraska	38	40	84	77
North Dakota	14	*	63	162
South Dakota	24	*	52	56
Southeast	78	99	188	140
Alabama	40	43	109	135
Arkansas	*	64	216	85
Florida	347	265	474	82
Georgia	79	127	158	159
Kentucky	20	50	117	118
Louisiana	111	95	88	220
Mississippi	1	14	130	118
North Carolina	68	91	158	87
South Carolina	72	68	193	132
Tennessee	44	80	146	170
Virginia	108	131	151	217
West Virginia	*	*	69	200
Southwest	127	128	227	283
Arizona	335	258	519	208
New Mexico	193	58	272	241
Oklahoma	27	78	130	234
Texas	126	130	202	310
Rocky Mountains	128	119	292	260
Colorado	171	192	312	216
Idaho	75	56	319	281
Montana	79	23	163	112
Utah	152	142	293	329
Wyoming	77	7	269	544
Far West	195	187	135	245
California	236	195	129	232
Nevada	352	451	438	442
Oregon	85	143	202	247
Washington	105	150	90	201
Alaska	317	239	350	977
Hawaii	132	168	265	323

*Indicates decline in population.

Source: ACIR staff computations.



Decentralization of Economic Activity

The convergence in regional per capita income levels has been accompanied by a very substantial decentralization of economic activity away from the regions of earliest industrialization. Such decentralization underlies the convergence trends since, by definition, the closing of earlier regional gaps requires the regions to grow at very different rates.

Population. The population shift away from the older industrial states to the South and West is not a new phenomenon. Since the turn of the century, the proportions of total U.S. population in the New England and Mideast regions have been declining while the proportions in the Southwest and Far West have been increasing. In 1910, the Frostbelt (New England, Mideast, and Great Lakes) accounted for 59.9% of the total U.S. population. In 1975, that proportion was down to 44.9%. The greatest growth was in the West, which rose from 4.7% of the total U.S. population in 1910 to 13.5% in 1975.

Although many of the shifts occurred in the early decades of the century, it appears that in recent years the disparities in population growth have accelerated among the various regions of the country. As noted in Table 2, between 1960 and 1970, New England's average annual rate of population growth was almost equal to that of the nation; between 1970 and 1975 the region's growth rate declined to only 56% of the U.S. average. In the Mideast, the average annual rate of population growth was approximately three-fourths of the U.S. average between 1960 and 1970 but only 4% between 1970 and 1975. In the Southeast and Southwest, however, the pattern was reversed. Between 1960 and 1970 the rate of population growth in the Southeast approximated the U.S. average; in the Southwest, it was 28% greater than the U.S. average. During the 1970 to 1975 period these rates accelerated respectively to 188% and 227% of the U.S. average.

Between 1975 and 1977, absolute as well as relative growth rates accelerated in states like Texas, Louisiana, Oklahoma, Alaska, and West Virginia—each growing at a rate at least 200% of the U.S. average.[3] Conversely, in the Northeast and Midwest, six states actually lost population between 1975 and 1977. In general, these states continued to experience lower growth rates with the Mideast region losing approximately 211,000 people. The biggest decline occurred in New York which lost some 198,000 people between 1975 and 1977. The only Northern states to grow faster than the national average over the last two years were small ones—Maine, New Hampshire, and Vermont.

However it is important to point out that while the disparities in population growth have recently increased, many of the fast growing states during the 1970-75 period are beginning to show signs that their rapid growth may have peaked. For example, population growth in Florida, Arizona, and Colorado has declined markedly in the last two years. The sharpest

[3]The rate of population growth in Alaska was nearly 10 times the national average, undoubtedly a temporary phenomenon largely attributable to the construction of the pipeline.

decline in growth was experienced in Florida which grew less than 1% per year between 1975 and 1977, compared to an average annual rate of growth exceeding 4% during the 1970-75 period.

Employment. Consistent with the population decentralization across the nation is the dispersion of employment (see map page 11). In 1910, 70% of the manufacturing employment was in the New England, Mideast, and Great Lakes regions. By 1975, it was only 53%. These shifts have been fairly continuous over the period. The Southeast experienced the most dramatic gains during this time: from 12.7% of the total in 1910 to 21.6% in 1975. Far smaller relative shifts have occurred in the service sector (wholesale and retail trade, transportation and communications, finance, government, etc.).

Total nonagricultural employment has been increasing in all regions and states, albeit at very different rates. Certainly since 1950, the rates of increase in nonagricultural employment in the New England, Mideast, and Great Lakes regions have been substantially below those for the U.S. as a whole, whereas the rates of growth in the Southeast, Southwest, Mountain, and Far West regions have been well above average. For manufacturing, however, absolute declines, not simply slower growth rates, are common in the New England and Mideast regions and rare elsewhere.

During the decade of the 1950s, four of the six New England states had decreases in manufacturing employment, as did New York, Pennsylvania, and Michigan (see Table 3). Between 1960 and 1970, a decade of far more rapid national manufacturing employment growth, only Massachusetts and New York continued to show decreases in manufacturing employment while the other states which had shown declines in the previous decade showed modest—far below national average—growth. The recent recessions in economic activity have reversed the expansion of the decade of the 1960s and all of the 17 states in the New England, Mideast, and Great Lakes regions—except Wisconsin—have experienced substantial decreases in their manufacturing employment.

Industrial Structure and Regional Economic Maturity. One early hypothesis about the regional shifts in employment, in particular about differential overall growth rates, stemmed from the more general regional economic maturity model which assumed that the older industrial regions were "locked in," because of earlier development, to more slowly growing industries. More recently developing regions, on the other hand, would have higher proportions of newer industries which were growing and expanding.

Previous research has investigated this hypothesis by comparing national growth rates of manufacturing industries with the state or regional growth rates. This research indicates that the problem in the older industrial states is not due to their industrial structure but arises because the state's industries grow at rates substantially below average.

Table 3

Rates of Growth of Manufacturing Employment 1950-1975

State	1950-60	1960-70	1970-75
United States	.88%	1.43%	-.99%
New England	-.06	.01	-2.10
Connecticut	.70	.86	-2.95
Maine	-.42	.55	-2.96
Massachusetts	-.25	-.74	-1.77
New Hampshire	.96	.54	-1.30
Rhode Island	-2.10	.10	-1.00
Vermont	-.44	1.38	-.75
Mideast	.01	.02	-3.05
Delaware	1.37	1.93	-1.51
District of Columbia	.51	-.82	-2.97
Maryland	1.10	.42	-2.82
New Jersey	0.67	.65	-3.29
New York	-.20	-.65	-3.70
Pennsylvania	-.28	.57	-2.39
Great Lakes	.01	1.08	-1.59
Illinois	.10	1.04	-1.86
Indiana	.24	1.80	-1.76
Michigan	-.94	1.03	-1.53
Ohio	.36	1.09	-2.02
Wisconsin	.58	.85	.28
Plains	1.33	2.01	.25
Iowa	1.35	2.01	1.75
Kansas	1.99	1.49	3.53
Minnesota	1.36	3.35	.10
Missouri	1.05	1.28	-1.82
Nebraska	2.52	2.44	.23
North Dakota	.64	4.30	8.67
South Dakota	1.22	1.89	4.83
Southeast	1.99	3.35	.40
Alabama	.93	3.17	.14
Arkansas	3.06	5.07	.84
Florida	7.29	4.52	1.47
Georgia	1.75	3.17	-1.03
Kentucky	2.05	3.95	1.54
Louisiana	-.21	2.13	.74
Mississippi	3.33	4.24	2.34
North Carolina	1.99	3.50	.46
South Carolina	1.53	3.34	.06
Tennessee	2.36	3.94	.44
Virginia	1.83	2.88	.15
West Virginia	-.53	.15	-.72
Southwest	3.28	4.33	1.64
Arizona	11.23	6.34	1.65
New Mexico	5.16	2.32	5.15
Oklahoma	2.82	4.45	2.16
Texas	3.02	4.23	1.52
Rocky Mountain	3.40	2.39	2.68
Colorado	3.60	2.97	2.82
Idaho	2.54	3.42	2.68
Montana	1.26	1.60	-1.64
Utah	4.80	1.60	4.30
Wyoming	2.76	-1.26	1.57
Far West	4.65	1.58	.41
California	5.66	1.70	.35
Nevada	4.43	4.52	7.39
Oregon	.45	1.78	1.32
Washington	1.95	1.01	.38
Alaska	NA	4.02	-1.44
Hawaii	NA	-.04	-1.28

N.A. = Not Applicable

Source: Compiled by ACIR staff from U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings, States and Areas 1939-75*, Bulletin 1370-12, 1977.

Table 4

Unemployment Rates*
1950-1975

State	1950	1960	1970	1975
United States	4.80	5.50	4.90	8.50
New England	6.60	5.70	4.90	9.20
Connecticut	5.40	5.60	5.60	10.10
Maine	8.80	7.40	5.70	10.20
Massachusetts	5.80	5.10	4.60	12.50
New Hampshire	6.60	4.10	3.30	6.90
Rhode Island	7.20	6.70	5.20	14.60
Vermont	5.50	5.40	4.90	10.00
Mideast	4.70	5.50	4.10	9.00
Delaware	3.10	4.20	4.80	9.30
District of Columbia	3.90	2.60	3.10	8.10
Maryland	4.60	5.60	3.30	7.50
New Jersey	5.10	6.70	4.60	10.20
New York	6.00	5.60	4.50	10.10
Pennsylvania	5.40	8.00	4.50	8.90
Great Lakes	4.00	5.10	5.00	9.30
Illinois	4.00	4.20	4.10	8.30
Indiana	3.10	5.20	5.00	8.80
Michigan	5.40	6.70	6.70	13.80
Ohio	4.40	5.30	5.40	8.50
Wisconsin	2.90	3.90	3.90	7.00
Plains	2.80	3.80	3.90	5.60
Iowa	1.80	3.00	3.70	5.70
Kansas	2.50	4.10	4.80	4.90
Minnesota	3.50	4.60	4.20	5.90
Missouri	3.30	4.60	3.30	7.30
Nebraska	2.20	2.70	3.10	5.50
North Dakota	3.80	5.00	4.60	5.20
South Dakota	2.80	2.90	3.30	4.90
Southeast	4.00	6.40	4.90	8.90
Alabama	4.20	6.30	4.70	8.90
Arkansas	4.70	6.10	5.00	8.90
Florida	4.50	5.20	4.40	11.40
Georgia	3.40	5.80	4.10	9.60
Kentucky	3.60	7.10	5.00	7.70
Louisiana	4.60	6.50	6.60	8.30
Mississippi	3.50	6.70	4.80	7.70
North Carolina	3.30	5.50	4.30	9.10
South Carolina	3.40	5.70	5.00	11.10
Tennessee	3.90	6.30	4.80	8.50
Virginia	3.90	4.20	3.40	6.90
West Virginia	4.80	11.90	6.10	8.20
Southwest	5.2	5.10	4.80	7.60
Arkansas	7.60	4.70	4.40	10.10
New Mexico	5.40	5.40	5.90	7.80
Oklahoma	3.80	4.90	4.40	6.20
Texas	3.90	5.30	4.40	6.10
Rocky Mountain	4.90	5.00	5.30	6.60
Colorado	4.20	9.78	4.40	5.50
Idaho	5.50	5.40	5.80	7.40
Montana	5.10	6.70	5.50	8.00
Utah	5.20	4.60	6.10	7.50
Wyoming	4.30	4.40	4.50	4.60
Far West	7.90	5.70	7.50	8.80
California	7.90	5.80	7.20	9.00
Nevada	6.70	5.80	5.90	9.70
Oregon	6.50	4.90	4.50	8.90
Washington	6.70	6.40	9.10	9.30
Alaska	9.80	8.00	8.70	8.60
Hawaii	9.50	3.10	4.70	7.40

*Regional figure is an unweighted average.

Note: Unemployment figures represent annual average rates for the respective years and 1975 rates were preliminary (an 11-month average).

Source: *Employment and Training Report of the President.* U.S. Government Printing Office, 1976, p. 312.

Some question as to the validity of this research arises since most of these studies have looked at very broad groups of industries, indeed, some have been based entirely upon the manufacturing sector. Such highly aggregated and partial analyses may not give us a sufficiently fine basis for conclusion. For example, the nonelectrical machinery industry, which in the typical study is viewed as a single branch, has 35 subsectors. Between 1967 and 1972, the industry as a whole contracted, yet 15 of its subsectors expanded. More generally, an examination of the subsectors of major industries shows very great differences—large increases in employment of some, large decreases in others.

As a result of these considerations, we have carried out a set of computations for New York State for the period 1968-73, based upon detailed subsectors for all industries. This great detail, contrary to our expectations, leads to conclusions similar to those of earlier studies. Sector by sector, employment growth in New York State fell below what would have been expected on the basis of the performance of those sectors nationally. Had New York's industries grown at their national rates, New York would have increased its employment by about the same percentage as the nation as a whole, about 13%, while in fact its employment declined by 1% over the period.

Unemployment. The unemployment rate is another principal indicator of economic well-being. If slower employment growth in the Northeast and Midwest along with shifts in economic activity among regions resulted in very high unemployment rates in the slowly growing regions and labor shortages in the rapidly growing regions, then there would be reason for serious concern about the hardships accompanying them. This is not the case, however. The enormous regional shifts in economic activity have been accomplished without substantial disparities in regional unemployment rates.

Since 1950, both slow growing New England and rapidly growing Far West regions have been generally plagued by above average unemployment rates (see Table 4). The Plains States and the Southwest have, with few exceptions, been characterized by well below average unemployment rates. In the remaining regions the record is more mixed. As recently as 1970, the states of the slow growing Mideast all had below average unemployment rates, while the states in the rapidly growing Far West and Southeast were generally above average. By 1975, four of the five Great Lakes states' unemployment rates were well above average, the Western states were also above average but below the rates of either the New England or the Mideast states.

Drawing conclusions from these figures—particularly the 1970-75 information—can be misleading since the 1970 data reflect the cutbacks in defense procurement for the Vietnam War in the Western states and 1975 figures are associated with the general recession in the economy. Nevertheless, it appears that the assertion that "unemployment (in

the Northeast) has become fixed at a higher rate than the national average,"[4] is not entirely unfounded. It is far from proven, however, since unemployment figures prior to 1970 were not consistently higher than the national average and higher than average unemployment rates have also characterized most of the Southeastern and Far Western states since 1970.

National Growth and Regional Development

For the last 25 years, at least, the economies of the Northeast and Midwest have been robust only when national growth rates have been high. Other regions, however, continue to grow, sometimes quite rapidly, in the face of relatively slow national growth. Regional differences in rates of growth, in terms of income and employment, have been smaller in periods of strong national growth and wider during the periods of slow growth or actual declines in gross national product.

Total Personal Income. During the early 1970s, variations in the rates of regional growth appear to have widened due apparently to two recessions and a generally sluggish economy. Personal income growth in the Northeast and Midwest regions which was 90 to 95% of the U.S. average during the 1960s was only 75 to 83% during the 1970s. In the Southeast, personal incomes grew at 117% of the national average in the 1960s and 108% in the early 1970s. The figures for the Southwest were 107% and 110%, respectively.

Indeed, a look at the behavior of nonfarm personal income in times of expansion and recession, as indicated on Table 5, illustrates that during expansions the lowest relative growth rates in total personal income have been experienced by the states in the Mideast and have been about 89% of the average national growth rate. The highest growth rate during expansions, 8.6%, has occurred in the Southeast, followed by the Far West and Southwest, with rates of 8.3 and 8.2%, respectively. During recessions the spread in relative rates of growth is far larger: the Great Lakes states actually decline and the Mideast growth rate of 1.7% is about 89% of the national average but the generally more rapidly growing regions are growing at rates one-and-one-half to two times that of the nation. Thus, the postwar growth rates of the older industrial states have generally fallen short of national growth rates. The relative disparities are, however, far larger during contractions than during expansions of the national economy.

[4] "The Future of the Northeast," *Empire State Report*, Vol. 2, No. 9, October-November 1976.

Table 5

Behavior of Nonfarm Personal Income During Postwar Business Cycles*

Region	Mean quarterly percent change, at annual rate: In expansions	In recessions	Cyclical swing: Percentage point difference	Postwar annual growth rate: Percent
United States	7.6	1.9	5.8	6.5
New England	7.1	2.0	5.1	6.1
Mideast	6.8	1.7	5.1	5.8
Great Lakes	7.7	-1.3	9.0	6.0
Plains	6.9	3.7	3.2	6.3
Southeast	8.6	2.9	5.7	7.5
Southwest	8.2	3.9	4.3	7.4
Rocky Mountain	7.4	5.2	2.2	7.0
Far West	8.3	3.7	5.1	7.4

*Calculated from seasonally adjusted data.
Source: Robert B. Bretzfelder, "Sensitivity of State and Regional Income to National Business Cycles," *Survey of Current Business*, April 1973.

Employment Growth. During the 1960s, the older industrial regions—New England, Mideast, and Great Lakes—grew at rates which were, on the average, 70 to 80% of U.S. employment growth. During the early 1970s, however, this rate of growth was zero to 38% of the U.S. average.

Indeed, one could make a case, taking only slight license, that the recessions of the 1970s were largely confined to the New England, Mideast, and Great Lakes states. Between September 1974, and June 1975, for example, when national total nonagricultural employment declined by 2.5%, employment in the Southwest and Rocky Mountain states actually grew, and in the Far West the decline was negligible (See Table 6).

In the initial stage of the recovery, employment grew by 5.16% for the nation. However, employment continued to decline in the Mideast states and grew by less than 1% in New England.

Since December 1976, however, the benefits of the recovery have been far more evenly dispersed. Indeed, the rate of growth in nonagricultural employment in the Mideast states has exceeded that in the Southwest and is about the same as that in the Rocky Mountain and Far West states. Due to these types of variations and the unusual economic climate of the 1970s, it would probably be dangerous to project future regional growth and development patterns based on the 1970s.

Conclusion

Nearly two decades ago, it was observed that there were two outstanding phenomena to be observed between 1870 and 1957. On the one hand there was the remarkable growth of the western half of the nation; but, on the other, there was the continuing economic dominance in terms of total activity of the eastern half of the nation, largely attributable to the very large absolute increase in population and in employment, despite its lower growth rate. Two things have happened since 1957: First, the bases of the regions have become more similar as a result of continued differential growth rates and thus absolute changes do not differ as much; and secondly, the national slowdown has meant that absolute increases generally are not so large.

Thus, while this early ACIR work suggests that the Northeast and Midwest are still in a relatively strong position in terms of per capita income, share of population, manufacturing, and total employment, there is some cause for concern about future growth and development in the highly industrialized regions of the Northeast stemming from their generally slower rates of growth. Moreover, the difficulties facing these regions in the near term, given their greater sensitivities to fluctuations in aggregate economic activity, may be exacerbated by (1) the need to contain inflationary pressure which may force the managers of the national economy to pursue policies which trade off more rapid national growth for a reduction in inflation, and (2) the realization of the relatively slow national growth being widely forecast for the next decade or two. Such slowdown is likely to severely affect the older, more industrial sections of the country. Thus, if such a slowdown were to occur for any extended period, the fears about the possible decline of older industrial regions might well be realized.

The most important regional policy both in terms of national acceptance and regional efficiency in resource utilization may well be the maintenance of a rapidly growing national economy. This has immediate payoff to the older industrial regions in employment and income growth. This study found that these regions have been relatively robust in these terms in the last 25 years only during periods of rapid national growth. Moreover, a strong national economy would also provide a cushion against which some necessary restructuring of regional economies could take place.

Janet Rothenberg Pack is ACIR's public finance resident with primary responsibility for the initial phase of the study of regional economic growth and development. Gordon Folkman, former public finance analyst at ACIR, compiled much of the data upon which this article is based.

Table 6

Percent Change in Total Nonagricultural Employment: Selected Periods, 1974-1977*

STATE	9/74-6/75	6/75-12/76	12/76-7/77
United States	-2.50%	5.16%	1.32%
New England	-2.30	.96	2.15
Connecticut	-4.66	1.85	1.07
Maine	-0.11	4.66	4.59
Massachusetts	-1.53	-1.45	1.74
New Hampshire	-1.90	3.77	7.83
Rhode Island	-1.14	5.98	-1.38
Vermont	-3.19	4.89	7.50
Mideast	-2.16	-1.35	2.63
Delaware	-4.46	1.89	2.81
District of Columbia	2.76	-19.33	.89
Maryland	-1.65	7.16	.79
New Jersey	-3.94	0.24	6.07
New York	-1.92	-3.10	1.85
Pennsylvania	-2.26	0.45	2.57
Great Lakes	-3.13	3.63	1.96
Illinois	-3.05	4.85	1.47
Indiana	-6.21	5.82	2.45
Michigan	-3.46	4.51	3.22
Ohio	-2.39	0.92	1.45
Wisconsin	-0.86	2.97	1.56
Plains	-1.35	3.04	1.90
Iowa	-0.14	1.73	0.30
Kansas	-1.04	7.43	1.45
Minnesota	-2.30	3.56	3.20
Missouri	-2.69	1.62	0.72
Nebraska	0.09	1.66	2.76
North Dakota	3.41	7.45	4.70
South Dakota	1.52	0.70	6.77
Southwest	.63	8.29	1.46
Arizona	-1.72	7.50	0.51
New Mexico	3.23	6.21	5.12
Oklahoma	0.67	8.44	1.56
Texas	0.80	8.57	1.29
Southeast	-1.71	3.94	3.89
Alabama	-0.41	4.64	5.75
Arkansas	-3.39	8.30	3.70
Florida	-1.61	3.00	2.51
Georgia	-2.60	2.40	7.37
Kentucky	-0.03	1.03	5.48
Louisiana	0.63	10.71	-1.23
Mississippi	-4.44	11.11	2.57
North Carolina	-2.14	0.47	4.56
South Carolina	-5.39	7.19	1.40
Tennessee	-2.82	-0.10	6.34
Virginia	-0.23	6.03	2.37
West Virginia	1.96	0.82	7.26
Rocky Mountain	2.96	4.31	2.76
Colorado	4.10	3.59	0.59
Idaho	4.08	5.23	4.40
Montana	2.36	-1.75	8.95
Utah	0.36	6.78	0.44
Wyoming	2.70	10.17	10.55
Far West	-.18	5.23	2.85
California	-0.60	6.07	2.20
Nevada	3.41	3.48	8.08
Oregon	-1.82	3.95	2.64
Washington	0.71	2.29	5.65
Alaska	9.63	7.64	6.57
Hawaii	4.25	0.26	2.84

*The period starting in September 1974, through July 1977, represents the downturn and recovery from the 1974-75 recession period as defined by the growth in seasonally adjusted total nonagricultural employment. Specifically, the period between September 1974 and June 1975 represents the downturn and the last two periods represent two phases of the recovery. It should be noted that while the general cycle was defined with seasonally adjusted figures, the percentages in this table are unadjusted because such an adjustment is not readily available on a state by state basis.

Source: *Employment and Earnings,* U.S. Department of Labor, Bureau of Labor Statistics. Various issues.

Federal Expenditures and Revenues in Regions and States

by I.M. Labovitz

The landscape of federal revenues and expenditures has altered significantly over the last quarter century. The annual volume of federal revenues and expenditures is now about five times the level of 1952. At that time, we were involved in a major conflict in Korea, so that military expenditures took 59% of total budget outlays. By 1974-76, despite war in Vietnam, national defense made up barely 26% of federal expenditures. Transfer payments, especially Social Security benefits, and aids to state and local governments have become major categories of expenditure.

On the revenue side, payroll taxes and other social insurance contributions are now a major source, increasing from less than 7% of the total in 1952 to 30% in 1974-76.

Understandably, these changes have affected state and regional shares in federal revenues and expenditures. Indeed, it appears that over the past 25 years, differences among states and regions in the flow of federal funds have narrowed steadily because of a faster-than-average rise in personal incomes in some regions, particularly the Southeast and Southwest.

This article measures those differences in state and regional shares in federal revenues and expenditures for selected fiscal years during 1952-76. It identifies some of the shifts that have occurred in the geographic origins of revenues and the geographic impacts of expenditures.

The data discussed here are estimates of federal revenues derived from residents of each state and federal expenditures for payments to residents of each state and for goods produced and services rendered there. The numbers are drawn from a report, in preparation, which assembles past compilations and previously unpublished tabulations for recent fiscal periods.

A study of this kind involves a multitude of assumptions and procedures on which analysts' judgments are likely to differ. The sidebar on page 23 provides some examples of the particular choices that were made in the studies summarized here.

Ratios of Expenditures to Revenues

One key indicator is a summary ratio which shows in a single number for each region or state whether federal expenditures in that area were proportionately greater or less than federal revenues originating there. These ratios (Table 1) are derived by pairing for each state or region its percentage share in allocated expenditures with its percentage contribution to revenues during the fiscal period.

The ratios assume a nationwide average of 1% of allocated expenditures associated with each 1% of revenues; i.e., on the average, for all the states together, $1 is expended for each $1 of revenue. Thus, the average ratio for any fiscal period is 1.00. A higher ratio indicates that the share in federal expenditures was higher than the percentage of revenues—and the deviation above 1.00 measures the extent of the variance. A ratio below 1.00 signifies that the share in federal expenditures was less than the percentage contribution to revenues—and the difference from 1.00 likewise measures the degree of variance.

These ratios permit direct comparison of states or regions in a given fiscal period and between periods.

Table 1 presents state and regional ratios for three of the five fiscal periods covered in this study. (The omitted periods are 1969-71 and 1959-61.) As the table indicates, in the first year for which such ratios are available, 1952, there were wide interstate and regional differences. For the Southeast region, for example, expenditures amounted to $1.51 for each dollar contributed to federal revenues. In the Mideast, expenditures were 75 cents for each dollar of revenue. For individual states, the spread was considerably greater.

Table 1

Ratio of Estimated Federal Expenditures to Estimated Federal Revenues, Selected Fiscal Years, 1952-1976

State	1974-76	1965-67	1952
United States	1.00	1.00	1.00
New England	1.01	.95	.78
Connecticut	.90	.92	.86
Maine	1.20	1.14	.96
Massachusetts	1.06	.90	.74
New Hampshire	.90	.83	.64
Rhode Island	1.08	1.17	.68
Vermont	1.18	1.11	.74
Mideast	1.02	.75	.75
Delaware	.70	.54	.53
District of Columbia	4.48	2.16	1.10
Maryland	1.12	1.34	1.09
New Jersey	.80	.71	.90
New York	.95	.62	.61
Pennsylvania	.95	.71	.86
Great Lakes	.75	.64	.87
Illinois	.71	.59	.69
Indiana	.74	.75	1.34
Michigan	.78	.58	.87
Ohio	.76	.70	.95
Wisconsin	.77	.67	.85
Plains	.97	1.15	1.20
Iowa	.81	1.00	1.05
Kansas	.95	1.44	1.73
Minnesota	.86	.93	1.26
Missouri	1.10	1.09	1.01
Nebraska	.90	1.26	1.12
North Dakota	1.30	2.04	1.56
South Dakota	1.32	1.67	1.52
Southeast	1.11	1.36	1.51
Alabama	1.28	1.52	2.03
Arkansas	1.18	1.29	2.15
Florida	.94	1.15	.82
Georgia	1.08	1.52	1.41
Kentucky	1.17	1.32	1.55
Louisiana	1.06	1.33	1.50
Mississippi	1.62	1.68	2.16
North Carolina	.99	1.21	1.07
South Carolina	1.22	1.58	2.30
Tennessee	.97	1.12	2.15
Virginia	1.36	1.73	1.57
West Virginia	1.19	1.02	1.15
Southwest	1.03	1.37	1.46
Arizona	1.15	1.33	1.39
New Mexico	1.48	1.68	2.99
Oklahoma	1.21	1.36	1.56
Texas	.94	1.35	1.34
Rocky Mountain	1.09	1.34	1.20
Colorado	1.04	1.33	.98
Idaho	1.04	1.15	1.55
Montana	1.12	1.53	1.04
Utah	1.27	1.32	1.67
Wyoming	1.02	1.50	1.35
Far West	1.13	1.27	1.12
California	1.15	1.32	1.06
Nevada	.84	.86	.77
Oregon	.91	.80	.96
Washington	1.19	1.24	1.58
Alaska	1.79	4.54	[1]
Hawaii	1.55	2.27	[1]

Note: The ratios are derived by dividing for each state or region its estimated percentage of all allocated federal government expenditures by the estimated percentage of federal government revenues contributed by its residents.

[1] Omits Alaska and Hawaii (which were territories in 1952).

Source: Advisory Commission on Intergovernmental Relations.

By 1974-76, regional disparities were significantly narrower. The Southeast ratio was still the highest but was down to $1.11 for each revenue dollar. The Mideast ratio had risen to 1.02, approximately average. The Great Lakes region, at 0.75, now had the lowest ratio. In four regions—Southeast, Southwest, Rocky Mountain, and Far West—the ratio of allocated expenditures to revenues was above average in all five periods. However, the deviation from average declined sharply in all but the Far West.

Only a single region—the Great Lakes—had a ratio below average in all five fiscal periods. For the Mideast, the ratio was below average in all periods before 1974-76. For New England, it was below average in three of the five periods and barely average in 1974-76. The only other regional ratio that was below average at any time was in 1974-76 for the Plains states—a region that was at the average in two earlier periods.

Another way to view this convergence of federal expenditure-revenue ratios is to group the states according to their ratios (see Table 2). In 1952, only 11 states had ratios of .90 to 1.09. By 1974-76, 18 states were in this group. The number of states with ratios of 1.25 and above declined from 22 in 1952 to 10 (including D.C.) in 1974-76. The number between 1.10 and 1.25 rose from 3 to 13.

Table 2

Number of States with Specified Ratios of Federal Government Expenditures to Federal Revenues: Selected Fiscal Years, 1952-1976

Ratio	1974-76	1969-71	1965-67	1959-61	1952
1.25 and above	10[1]	15[1]	25[1]	22[1]	22
1.10 to 1.24	13	12	8	7	3[1]
.90 to 1.09	18	10	6	9	11
Under .90	10	14	12	13	13

[1] Includes D.C. Alaska and Hawaii also are in the top bracket in all periods after 1952 but are omitted from the count for 1952 because they were territories at that time.

Source: Advisory Commission on Intergovernmental Relations

The maps on pages 18 and 19 illustrate the ratios in two of the five periods—1952 and 1974-76. They show dramatically the changes over 24 years: from a dominance of very high ratio states (1.25 and above) to a prevalence of average ratios (.90 to 1.09).

Percentages of Expenditures and Revenues

Tables 3 and 4 report the regional percentages of total federal expenditures and revenues in each fiscal period.

Table 3 shows that regional shares in expenditures have not changed markedly over the 24 years. The greatest relative changes appear in the Plains region, where the percentage declined by more than one-fifth, and in the Southeast, where it rose by one-

Ratio of Estimated Federal Government Expenditures in Each State to Estimated Federal Revenues from Residents of the State: Fiscal Year 1952

(Average ratio for all states equals 1.00)

Mass.	.74
Conn.	.86
N.H.	.64
R.I.	.68
Vt.	.74
Del.	.53
Dist. of Col.	1.10
Md.	1.09
N.J.	.90
Alaska[1]	
Hawaii[1]	

[1]Were territories in 1952.

1.25 & Above
1.10-1.24
.90-1.09
Under .90

Source: Advisory Commission on Intergovernmental Relations

sixth. Expenditure percentages for New England, the Mideast, Southwest, and Far West reveal no clear long-term trend. Those for the Great Lakes and Plains states likewise held roughly level after 1952. The Southeast and Rocky Mountain regions rose somewhat.

Regional contributions to revenues (Table 4) show greater shifts. For two regions the percentages fell substantially—from 30.6 to 21.9 in the Mideast, and from 8.1 to 6.1 in New England. The Great Lakes declined slightly: from 22.2 to 20.2%, after holding level during 1959-71. The Southeast share rose by more than half; the Southwest and Rocky Mountain shares also rose.

In each period studied, about 36% of all federal expenditures were in five states: California, New York, Pennsylvania, Texas, and Illinois. Their combined share was about the same in 1974-76 as in 1952, just over 36%, but it approached 38% in 1969-71.

As a group, these five states contributed a larger share of revenues—43.7% of the national total in 1952, declining to 40.5% in 1965-67 and 37.2% in 1974-76. But among these states, California had a greater share of expenditures than of revenues in all the fiscal periods, and Texas in all but the latest period. Moreover, Ohio surpassed Texas in revenue contributions in all periods prior to 1974-76, and Michigan surpassed Texas in 1952, 1959-61, and 1969-71.

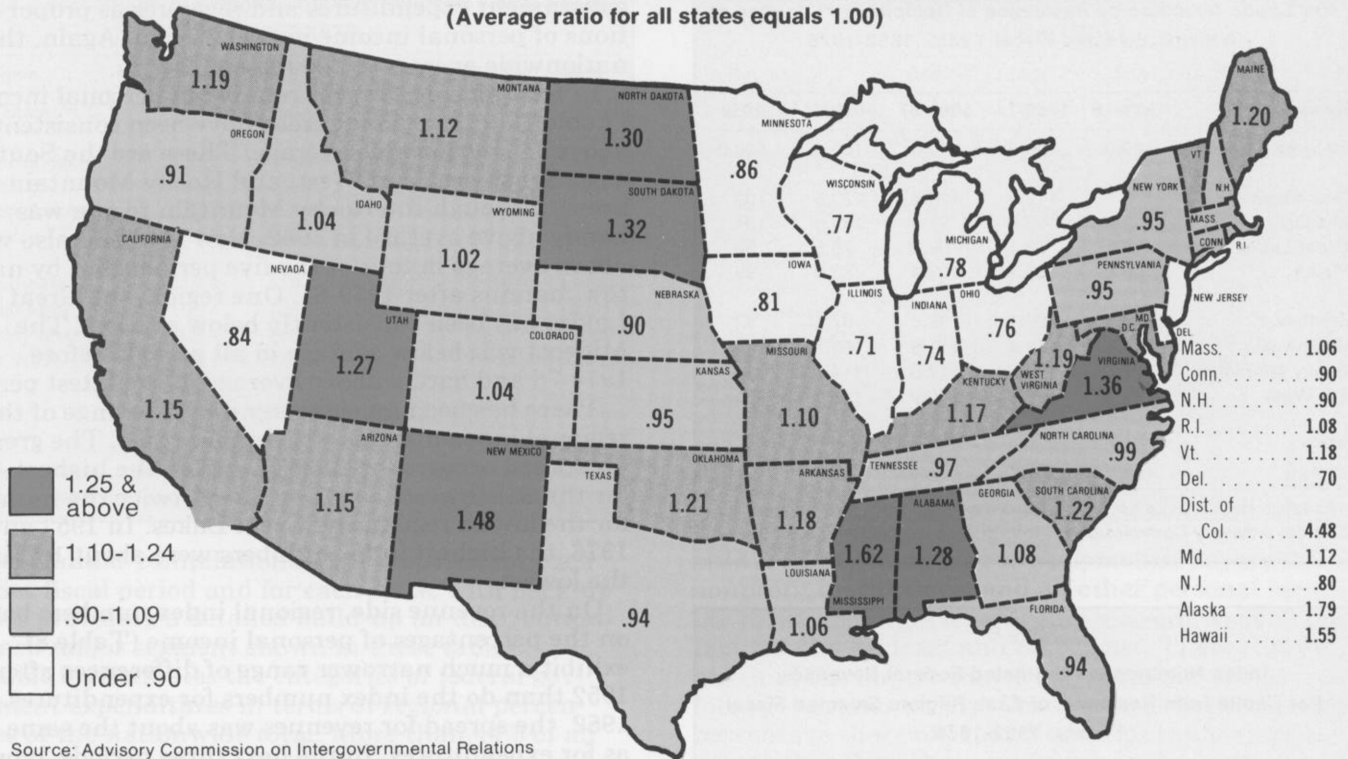
At the other extreme, five states together had barely 1% of all federal expenditures in each period. These were Nevada, Vermont, New Hampshire, Wyoming, and Delaware. Their combined share rose from

Table 3

Regional Percentages of Total Federal Government Expenditures Allocated by Residence of Recipient or Location of Activity: Selected Fiscal Years, 1952-1976

Region	1974-76	1969-71	1965-67	1959-61	1952
New England	6.2%	6.5%	6.4%	7.2%	6.3%
Mideast	22.2	22.1	19.5	22.3	23.0
Great Lakes	15.1	14.5	13.8	15.9	19.3
Plains	7.1	7.2	8.4	7.6	9.1
Southeast	21.7	20.7	21.5	18.9	18.6
Southwest	8.4	9.1	9.0	8.2	8.2
Rocky Mountain	2.7	2.6	2.8	2.7	2.3
Far West	15.5	16.3	17.3	15.6	13.1
Alaska, Hawaii	1.1	1.0	1.3	1.6	*

*As territories, Alaska and Hawaii were omitted from 1952 estimates.
Source: Advisory Commission on Intergovernmental Relations.



Ratio of Estimated Federal Government Expenditures in Each State to Estimated Federal Revenues from Residents of the State: Fiscal Years 1974-76
(Average ratio for all states equals 1.00)

Source: Advisory Commission on Intergovernmental Relations

1.0% in 1952 to 1.3% in 1974-76. These states contributed a marginally higher percentage of revenues than their combined share of expenditures in three of the five periods—1.1% of revenues in 1952, rising to 1.3% in 1974-76.

Table 4

Percentage of Total Federal Government Revenues Contributed by Residents of Each Region: Selected Fiscal Years, 1952-1976

Region	1974-76	1969-71	1965-67	1959-61	1952
New England	6.1%	6.9%	6.7%	6.8%	8.1%
Mideast	21.9	24.7	25.8	26.9	30.6
Great Lakes	20.2	21.2	21.5	21.4	22.2
Plains	7.4	7.1	7.3	7.5	7.5
Southeast	19.5	16.8	15.8	14.7	12.3
Southwest	8.1	6.9	6.6	6.6	5.6
Rocky Mountain	2.5	2.1	2.1	2.2	1.9
Far West	13.7	13.8	13.7	13.5	11.8
Alaska, Hawaii	.6	.5	.5	.4	*

*As territories, Alaska and Hawaii were omitted from 1952 estimates.

Source: Advisory Commission on Intergovernmental Relations.

Index Numbers for Amounts Per Capita

Tables 5 and 6 provide regional index numbers for federal expenditures and revenues per capita, based on population estimates for the midpoint of the fiscal period and a nationwide average of 100. An index number above 100 signifies that the amount per capita is above the average for all the states and D.C. A number below 100 signifies that the amount per capita is below average. The deviation from the base of 100 measures the degree to which the estimate for a region is above or below the national average.

Two regions were consistently below the nationwide average of expenditures per capita in all the fiscal periods tabulated—the Great Lakes and the Southeast (Table 5). The Plains states also were below average in all periods except 1965-67 (but barely below in 1952). New England and the Far West were consistently above in all periods. The Mideast was above average in four of the five periods, dropping below only in 1965-67. The Southwest was above average before 1974-76, when it dipped slightly below. The Rocky Mountain region was above average in all periods except 1952, but only slightly above in 1974-76. Index numbers for Alaska and Hawaii fell sharply in successive periods but were still far above average in 1974-76.

Table 5

Regional Index Numbers for Estimated Federal Expenditures Per Capita Allocated by Residence of Recipient or Location of Activity: Selected Fiscal Years, 1952-1976

Region	1974-76	1969-71	1965-67	1959-61	1952
50 States & D.C.	100.0	100.0	100.0	100.0	100.0
New England	108.5	112.2	110.8	123.6	103
Mideast	110.6	106.0	91.4	103.9	104
Great Lakes	78.5	73.1	69.9	78.5	96
Plains	90.8	89.7	103.4	88.3	99
Southeast	97.1	96.1	98.5	87.5	83
Southwest	97.8	111.4	111.6	103.5	107
Rocky Mountain	102.3	103.7	117.0	112.8	99
Far West	119.8	127.8	140.9	136.3	131
Alaska	236.0	279.8	435.4	576.3	*
Hawaii	165.7	159.1	201.3	238.3	*

*As territories, Alaska and Hawaii were omitted from 1952 estimates.
Source: Advisory Commission on Intergovernmental Relations.

Table 6

Index Numbers for Estimated Federal Revenues Per Capita from Residents of Each Region: Selected Fiscal Years, 1952-1976

Region	1974-76	1969-71	1965-67	1959-61	1952
50 States & D.C.	100.0	100.0	100.0	100.0	100.0
New England	107.1	117.9	117.2	115.8	133
Mideast	108.9	118.4	121.2	125.4	138
Great Lakes	104.8	107.0	108.9	105.9	110
Plains	93.7	88.9	90.1	88.1	82
Southeast	87.2	77.7	72.6	67.9	55
Southwest	94.7	84.6	81.4	83.2	73
Rocky Mountain	93.7	84.0	87.1	90.9	83
Far West	106.0	108.2	111.0	117.7	117
Alaska	131.2	104.4	93.3	76.8	*
Hawaii	106.8	102.6	90.1	86.6	*

*As territories, Alaska and Hawaii were omitted from 1952 estimates.
Source: Advisory Commission on Intergovernmental Relations.

A different picture emerges when the measure is revenue contributions per capita (Table 6). Four regions were consistently above average in all periods —New England, the Mideast, Great Lakes, and the Far West—though their differences from average were considerably less in 1974-76 than in earlier periods. The other four regions were consistently below average in all periods—the Plains, Southeast, Southwest, and Rocky Mountain areas—though their differences from average also were much less in 1974-76 than in earlier years. In Alaska and Hawaii, federal revenue contributions per capita were below average prior to 1969; they rose above average in the later periods.

Index Numbers Based on Personal Incomes

In Tables 7 and 8, index numbers show federal government expenditures and revenues as proportions of personal income in each region. Again, the nationwide average is 100 for each series.

In federal expenditures relative to personal income (Table 7), four regional areas have been consistently above the nationwide average. These are the Southeast, Southwest, Far West, and Rocky Mountain areas, although the Rocky Mountain region was barely above average in 1952. New England also was above average in four of the five periods, but by narrow margins after 1959-61. One region, the Great Lakes, has been consistently below average. The Mideast was below average in all periods before 1974-76 and barely above average in the latest period.

There has been no clear trend in the range of these regional index numbers for expenditures. The greatest spread occurred in 1965-67, when the highest—for the Southwest—was more than twice the number for the lowest region, the Great Lakes. In 1952 and 1976, the highest index numbers were about 1.5 times the lowest.

On the revenue side, regional index numbers based on the percentages of personal income (Table 8) exhibit a much narrower range of differences after 1952 than do the index numbers for expenditures. For 1952, the spread for revenues was about the same as for expenditures. In the next three periods, however, the highest index numbers were for the Mideast or New England and were only 13 to 15% above the lowest regional numbers, those for the Southeast and the Plains. In 1974-76, the spread was down to 8%, with the New England index number highest at 103.8 and the Plains lowest at 96.

New England and the Mideast have stood consistently above or at the nationwide average for federal revenues as a percentage of personal income (Table 8). The Mideast numbers declined over the years, so that for 1974-76 this region was at the average. Three regions have been consistently below average: the Far West, Rocky Mountain (barely below average in 1974-76), and the Plains states. The Southeast and Southwest were barely above average in 1974-76 after standing below average in all earlier periods.

For Alaska and Hawaii, index numbers based on federal expenditures relative to personal income, like those for expenditures per capita, fell sharply after 1959-61 but were still far above average in 1974-76. Index numbers for revenues relative to personal income were below average in all periods but moved upward over the years.

Major Categories of Expenditures and Revenues

Tables 9 and 10, showing major categories of federal expenditures and revenues as distributed among the regions for 1974-76, are included to illustrate how the aggregates for each fiscal period were de-

Table 7

Regional Index Numbers for Estimated Federal Expenditures as a Percentage of Personal Income: Selected Fiscal Years, 1952-1976

Region	1974-76	1969-71	1965-67	1959-61	1952
50 States & D.C.	100.0	100.0	100.0	100.0	100.0
New England	105.1	103.1	101.2	111.4	96.8
Mideast	101.6	93.4	80.9	89.1	90.4
Great Lakes	75.5	69.6	64.3	73.6	85.3
Plains	92.9	95.2	108.7	94.7	105.8
Southeast	112.8	118.7	128.4	121.0	119.6
Southwest	105.4	126.2	131.3	119.2	122.0
Rocky Mountain	108.1	116.7	127.7	118.8	100.9
Far West	109.5	115.0	122.5	114.8	108.0
Alaska	159.3	240.1	373.5	477.8	*
Hawaii	149.1	142.3	194.6	241.4	*

*As territories, Alaska and Hawaii were omitted from 1952 estimates.
Source: Advisory Commission on Intergovernmental Relations.

Table 8

Regional Index Numbers for Estimated Federal Revenues as a Percentage of Personal Income: Selected Fiscal Years, 1952-1976

Region	1974-76	1969-71	1965-67	1959-61	1952
50 States & D.C.	100.0	100.0	100.0	100.0	100.0
New England	103.8	108.5	106.7	104.0	124.4
Mideast	100.1	104.3	107.1	107.5	120.0
Great Lakes	100.6	101.9	100.0	99.1	97.7
Plains	96.0	94.3	94.6	94.3	87.9
Southeast	101.2	95.9	94.6	93.4	79.1
Southwest	102.3	95.8	95.8	95.6	83.4
Rocky Mountain	99.1	94.4	95.0	95.6	84.3
Far West	97.0	97.4	96.2	99.1	96.6
Alaska	90.0	89.8	79.9	63.6	*
Hawaii	95.1	91.8	87.0	87.3	*

*As territories, Alaska and Hawaii were omitted from 1952 estimates
Source: Advisory Commission on Intergovernmental Relations.

rived. Similar compilations were prepared for each earlier fiscal period and for each state, with back-up tables providing a detailed build-up (or distribution) of each major segment shown in these tables.

Table 9 distributes the categories of federal government expenditures in terms of regional percentages of the nationwide total. More than 44% of all payments to personal incomes (pay of civilian and military personnel, transfer payments, payments to nonprofit institutions, and all other personal income payments from the federal government) went to two regions: the Mideast and Southeast. These regions also had the largest shares of federal aid to state and local governments. The Far West was highest in the percentage share of expenditures for military purposes other than the pay of personnel.

Table 9

Regional Percentages of Major Categories of Federal Government Expenditures by Residence of Recipient or Location of Activity: Fiscal Years 1974-76

(The sum of regional percentages in each column is 100.0%)

		Payments to personal incomes[1]						
Region	Total of allocated expenditures	Total	Pay of personnel, civilian and military	All other	Military outlays except personnel	Aid to state and local governments	Interest on debt[2]	All other[3]
New England	6.2%	5.6%	3.8%	6.2%	10.8%	6.3%	5.4%	2.8%
Mideast	22.2	22.1	22.0	22.1	21.0	23.6	25.6	12.8
Great Lakes	15.1	15.7	9.8	17.9	9.6	16.4	19.3	5.5
Plains	7.1	7.1	6.0	7.6	7.2	7.2	7.5	4.5
Southeast	21.7	22.8	25.6	21.7	16.2	21.3	18.9	20.4
Southwest	8.4	8.5	10.6	7.7	8.9	7.6	7.8	7.8
Rocky Mountain	2.7	2.8	3.9	2.3	1.8	3.0	2.2	5.2
Far West	15.5	14.4	15.8	13.9	23.2	13.5	12.9	40.5
Alaska, Hawaii	1.1	1.0	2.4	.6	1.3	1.1	.4	.5
Amount allocated (billions)	$969.9	$672.3	$187.7	$484.6	$103.4	$148.6	$34.0	$11.5

[1]Percentages are based on payments to personal incomes in three calendar years, 1974-76.
[2]Excludes interest paid to individuals and nonprofit institutions, which is included in "all other payments to personal incomes." Also excludes interest paid to foreign holders of U.S. obligations.
[3]Comprises research and development contracts of the National Aeronautics and Space Administration, civil prime contracts of the Department of Defense, and hospital and domiciliary construction contracts of the Veterans Administration.
Source: Advisory Commission on Intergovernmental Relations.

Table 10

Percentages of Major Categories of Federal Government Revenues Estimated by Region of Origin: Fiscal Years 1974-76

(The sum of regional percentages in each column is 100.0%)

Region	Total of allocated revenues	Individual income tax	*Employment* taxes and insurance contributions	Corporate income tax	Estate and gift taxes	Excise taxes and customs	Miscel-laneous receipts
New England	6.1%	6.2%	5.7%	6.9%	6.7%	5.8%	5.7%
Mideast	21.9	22.8	20.7	23.2	23.4	19.0	20.1
Great Lakes	20.2	21.3	19.7	18.7	17.5	19.5	19.3
Plains	7.4	7.2	7.8	6.8	8.6	7.5	7.9
Southeast	19.5	18.3	20.5	19.8	17.1	21.5	22.3
Southwest	8.1	7.6	8.5	7.9	9.1	9.2	8.5
Rocky Mountain	2.5	2.4	2.7	2.4	1.9	2.8	2.7
Far West	13.7	13.5	13.7	13.9	15.5	14.0	12.9
Alaska, Hawaii	.7	.7	.7	.5	.2	.7	.6
Amount allocated (billions)	$840.8	$371.8	$252.0	$120.2	$14.8	$61.4	$20.5

Source: Advisory Commission on Intergovernmental Relations

Comparison of Tables 9 and 10 indicates that the leading region in contributions to federal revenues in 1974-76—the Mideast, at 21.9%—was marginally below its 22.2% share of expenditures. The Great Lakes had the next highest regional percentage of revenues, 20.2%, but was fourth in expenditures, at 15.1%. The Far West provided 13.7% of total revenues and drew 15.5% of total expenditures. Regional percentages for individual income taxes, employment taxes, and corporate income taxes did not differ markedly from their percentages of total revenues.

More than two-thirds of the distributed federal expenditures for fiscal years 1974-76 were in the category of payments to personal incomes. Within this category, somewhat more than one-fourth was salaries and wages for civilian and military personnel. The remainder (constituting half of all the distributed expenditures) was in Social Security benefits, other transfer payments, purchases of goods and services from individuals, interest payments to individuals, and other federal payments to individuals. (Payments to nonprofit institutions are classified as payments to individuals.) Expenditures in Table 9 may be summarized as follows:

Expenditure Category, 1974-76

Payments to personal incomes: Total	69.3%
Pay of federal personnel, military and civilian	19.3
Other payments to personal income	50.0
Military outlays except pay of personnel	10.7
Aid to state and local governments	15.3
Interest on debt, other than payments to personal incomes	3.5
All other expenditures	1.2
Total	100.0%

The revenue categories in Table 10 may be summarized in similar fashion, as follows:

Revenues allocated by origin, 1974-76

Individual income tax	44.2%
Employment taxes and insurance contributions	30.0
Corporate income taxes	14.3
Estate and gift taxes	1.8
Excise taxes and customs	7.3
Miscellaneous receipts	2.4
Total	100.0%

Conclusion

Examination of the statistical series for selected fiscal periods during 1952-76 shows that interstate and interregional differences in the ratio of federal government expenditures to revenues were considerably narrower in 1974-76 than they were in 1952. This convergence results primarily from a trend toward equalization of tax yields relative to population and personal incomes.

Convergence is not evident on the expenditure side. Measured by federal expenditures relative to population or to personal income, regional differences in expenditures were about as large in 1974-76 as in 1952.

The tendency for revenue contributions to draw nearer to the average may be attributed to a long-term trend toward a narrowing of geographic disparities in the levels of personal income, coupled with the fact that the individual income tax, with progressive rate schedules, is the primary element in the federal revenue system. The relationship is affected also by the growing volume of payroll taxes in budgetary receipts.

A cautionary note must be added. These statistics do not define goals or policy objectives. Despite the evidence of a reduction of geographic differences in the pattern of overall federal expenditure-revenue relationships, it does not follow—at least it should not be concluded without special analysis and evaluation—that this tendency should be applauded and fostered or condemned and opposed. It should, of course, be examined and evaluated.

Excepting in an egalitarian society, uniformity in the ratios and index numbers is not to be expected. Indeed, such uniformity might run counter to the dominant values of our federal system of government, which allows and adjusts for regional and individual differences in economic status, consumption levels, resource availability, demand for governmental services and activities, and other characteristics. Interstate uniformity in the ratios of federal expenditures to revenues, if it appeared, might attest to some frustration of national interests and standards.

Differences among states and regions of the kinds shown in these statistics may be expected to persist as long as there are—

- ☐ on the revenue side, differences in the levels of personal incomes among states and regions, with resulting differences in tax contributions relative to personal income; and
- ☐ on the expenditure side, differences in federal outlays relative to population and personal income, because the outlays must be made where services or support are needed and where entitlements have accumulated (as in the case of Social Security benefits), and where productive personnel, facilities, and other resources are located.

Considering the diverse factors involved, it seems likely that substantial regional differences in expenditures per capita or as a percentage of personal income will continue. In the case of revenues, however, regional differences in federal taxes as a proportion of personal income were negligible in 1974-76. Even that narrow spread may be reduced if regional averages of personal income continue to move closer together.

I.M. Labovitz is a consultant to the Advisory Commission on Intergovernmental Relations.

Distribution Procedures

The objective of the federal government expenditure and revenue estimates in this article is to measure the geographic *origins* of revenues and the geographic *impacts* of expenditures. Summary data are provided for each state and the District of Columbia (but not for lesser areas) and for regional groups of states.

Revenue origins are not necessarily the same as the place where collections are made or remittances received by the government. In fact, for several categories, such as corporation income taxes and for liquor, tobacco, gasoline, and other excises, the amount originating in a state often differs substantially from the amount collected in that state. In the geographic distributions by origins, these revenues are attributed, insofar as possible, to the state of residence of the taxpayer.

The estimates are based on numerous assumptions applying to particular segments of each distribution. For example, the distributions of employment taxes and other social insurance contributions assume that taxes levied on wage-earners and the self-employed are borne by them in their states of residence, and that payroll taxes levied on employers are paid ultimately by consumers in the prices of goods. For the corporation income tax, the basic assumption is that half the tax is borne by stockholders and half by consumers.

For each subcategory of revenues, the detailed estimates are derived by applying statistical distributors chosen to approximate the particular assumptions about that series.

For the expenditure estimates, similarly, the place of disbursement is disregarded. Federal outlays are allocated generally to the state of residence of individual recipients (such as government employees, Social Security beneficiaries, and pensioners); and to the state where goods are produced or services are rendered by contractors, suppliers, and other corporate recipients.

An increasing proportion of the expenditure distributions is based on personal income compilations for calendar years, by states, prepared by the Department of Commerce. (Payments to nonprofit institutions are classified as payments to individuals.)

The dollar amounts of revenues and expenditures estimated for states or regions are not directly comparable within or between fiscal periods. This is because of differences in the scope of the distributions and, to a lesser extent, because different proportions of federal expenditures were financed by borrowing (14% in 1974-76 and from 2 to 6% in the earlier periods).

To avoid these complications, the share of each state or region is reported in this article in terms of ratios, percentages, and index numbers. Even so, it should be understood that the numbers have an appearance of much greater precision than can reasonably be claimed.

The underlying assumptions and distributions differ in some details for the several periods (with the greatest differences between 1952 and later years), but the statistics are generally comparable between periods.

A Fiscal Note

Ballot Measures to Curb Spending Vary in Philosophy, Flexibility, and Effect

The second round of the "tax revolt" takes place early in November when voters in 12 states will be asked to vote yes or no to various proposals for slowing down state and local spending.

The states with state and/or local spending or tax limits on the November ballot are: Arizona, Colorado, Hawaii, Idaho, Michigan, Missouri, Nebraska, Nevada, North Dakota, Oregon, South Dakota, and Texas.

- ☐ Most of these state-wide referenda proposals would amend state constitutions—fairly substantive changes in the rules that govern the power to tax and the power to spend.
- ☐ From an expenditure standpoint, they run the gamut—from mild constraint under the Texas proposal to very severe tax restrictions of the Proposition 13 variety in Oregon, Idaho, and Nevada.
- ☐ These proposals also reveal sharply differing attitudes toward representative government—the moderates favor brighter spotlights; the conservatives demand tighter fiscal handcuffs.

Proposals to limit state and/or local spending or taxing on the November ballot—and those already in place in six states (California, Tennessee, New Jersey, Colorado, Rhode Island and Michigan)—fall into three broad areas: tax rollbacks or lids, expenditure lids, and efforts to strengthen fiscal accountability. The chart to the right, developed by ACIR Assistant Director John Shannon, summarizes the philosophy behind each of these areas and describes how each affects expenditures, representative government, and fiscal flexibility.

ACIR Public Accountability Position

Well before the passage of Proposition 13, the Commission had become concerned about the growth in the state-local sector—a growth that, for three decades, consistently outstripped the growth in the private economy. The Commission's concern was heightened because there was evidence to suggest that a part of this public sector growth rate could be traced to imperfections in our system for holding elected officials clearly accountable for the growth in taxes and expenditures—imperfections that become far more serious during inflation.

- ☐ Inflation silently pushes taxpayers into higher federal and state income tax brackets. To put an end to unlegislated tax rate increases, the Commission recommended the indexation of federal and state personal income taxes (August 1976).
- ☐ Inflation also requires conscientious assessors to raise tax assessments in order to keep pace with rapidly rising property values. To prevent property tax "windfalls," the Commission recommended the "truth in property taxation" procedure pioneered by Florida. Under this plan, there is an automatic rollback in tax rates unless local legislators are willing to publicly acknowledge that it is their decision to spend more money—not the assessor's decision to raise tax assessments—that is the cause of the tax increase (August 1976).
- ☐ Increasingly, state legislators mandate additional expenditure requirements on localities thereby taking the political credit for new programs while saddling local officials with the added responsibility for finding the money. To prevent this diffusion and misdirection of political responsibility for new spending programs, the Commission has urged the state legislatures to put their dollars where their mouths are—to reimburse local governments for certain types of state mandated expenditures (September 1977).

These three recommendations all have one thing in common; they stress the use of the political accountability "spotlight" rather than the imposition of "fiscal shackles" as the preferred way to moderate state-local growth trends.

AN "IMPRESSIONISTIC"

Examples
Expenditure Effect
Representative Government Effect
Fiscal Flexibility Effect
Philosophy

EVALUATION OF SEVERAL WAYS TO SLOW DOWN STATE AND LOCAL SPENDING

Strengthened Fiscal Accountability		Expenditure Lids		Tax Rollbacks and Tax Lids
Fiscal Constraints 1. Indexation of state personal income tax to prevent unlegislated tax rate increases caused by inflation (Colorado, Arizona, and California).* (S) 2. State reimbursement to local governments for certain expenditure mandates (California and Tennessee).* (S)	**Full Disclosure-Type Lids** 1. *Tennessee plan*—state spending growth not to exceed growth in the economy; with a *majority* vote of both houses limitation can be exceeded under a full disclosure procedure. Texas Proposal. (C) 2. *Florida's truth in property taxation plan*—with a *majority* vote local representatives can raise property taxes under a full disclosure procedure (Hawaii, Maryland, and Virginia).* (S) Texas Proposal. (C)	**Fairly Tight Lids** *Hawaiian proposal*—growth in state expenditure not to exceed the growth in the economy; require *two-thirds* vote of both houses to raise limit under a full disclosure procedure. (C) The Arizona proposal is similar to the Hawaiian plan.	**Tight Lids** *Colorado proposal*—state and local expenditures not to exceed the increase in cost of living (adjusted to population change); requires approval of a *majority of voters* to raise spending limit. (C)	**(Proposition 13) California** A Proposition 13-type plan that calls for: 1. major rollback in local property taxes 2. partial assessment freeze 3. a *two-thirds* vote of qualified electors required to raise local taxes 4. a *two-thirds* vote of both houses required to raise state taxes. Proposed—Oregon, Idaho, Nevada, & Michigan (C)
MILD TO MODERATE CONSTRAINT—depending in large part on willingness of elected officials to accept political responsibility for higher expenditures and taxes.		MILD TO FAIRLY SEVERE CONSTRAINT relatively moderate limit but fairly difficult to exceed.	SEVERE CONSTRAINT tight limit and very difficult to exceed.	VERY SEVERE CONSTRAINT—unless state funds are sufficient to cushion the shock of local property tax rollback—increased local dependency on state government.
Strengthens representative government by turning a brighter spotlight on tax and expenditure decisions.		Tends to undercut representative government by granting to legislative minority the right to veto major expenditure increases.	Undercuts representative government by granting to the general electorate the power to approve expenditure increases.	Undercuts both representative government and majority rule.
No substantial impairment—state and local officials can increase tax and spending levels as high as they deem appropriate but they are required under this approach to accept full political responsibility.		Substantial impairment of expenditure flexibility. Public sector will shrink in relation to the economy.	Some impairment of expenditure flexibility. Public sector cannot grow faster than the economy.	Severe impairment on tax side and thereby reduces expenditure options. The partial assessment freeze also portends serious property tax inequities over time.
Representative government can work well when elected officials are held accountable by an informed citizenry—brighter spotlights not fiscal handcuffs.		A majority of elected officials cannot be expected to act prudently—require special expenditure constraints.		Elected officials cannot be trusted to act prudently—cut taxes and make it difficult for them to obtain replacement revenue.

(C) Constitutional
(S) Statutory
*Policy recommended by ACIR

ACIR/John Shannon
September 28, 1978

ACIR News

ACIR Reviews Early Findings on Regional Growth, Functional Assignment

At its meeting September 14, the Advisory Commission on Intergovernmental Relations reviewed staff findings on two long-term studies currently underway: regional economic growth and the federal role in our intergovernmental system.

Commission findings in the area of regional growth and development are outlined in two articles in this issue of *Intergovernmental Perspective.*

The functional allocation study will look at various aspects of federal involvement in the intergovernmental system with special attention focused on the last 18 years—a period of considerable activity. The Commission will consider the roles the federal government has assumed in a variety of areas and determine which are appropriate, which inappropriate. To help illuminate and illustrate federal activities, a number of case studies will be prepared in areas including environmental protection, education, income maintenance, health, and employment and training.

The Commission also:

- ☐ reviewed an interim report to President Carter from ACIR's Federal Assistance Monitoring Project;
- ☐ deferred specific action or directed research on Proposition 13-type issues, at the same time encouraging staff to continue efforts to monitor and assess current and proposed limitation on spending and taxing;
- ☐ agreed to a Congressional request to assess the impact on federal property on cities and counties and to recommend an appropriate payment-in-lieu of taxes system; and
- ☐ agreed to enter a second phase of a HUD interagency contact to improve state and local financial administration.

Commission Vice Chairman Lynn Cutler reported on the initial meeting of the Special Committee on Work Program, Budget and Staffing Levels, which she chairs. This Committee met August 3-4 and considered several issues including ACIR's operating principles, work program, role in implementing its policies, budget and staffing levels, and choice of research topics and other projects. The special committee will meet in October and will make a report including recommendations to the Commission at a future Commission meeting.

The full Commission will meet again December 7-8 in Washington.

ACIR Testifies on Proposition 13, Federal Grant Reform and Consolidation

ACIR staff made three appearances before Congressional subcommittees over the summer to present testimony on Proposition 13 and to outline Commission positions relating to reform of the federal grant system.

ACIR Assistant Director John Shannon described what he called a "Tough Reappraisal of State-Local Finance after Jarvis" at a hearing on Proposition 13 held jointly by the House Subcommittee on the City and the Joint Economic Committee July 25. He outlined ACIR's five point prescription for minimizing the "irritant" level of local property tax: a uniform system of administration; "truth in taxation," calling for full disclosure of the effects that changes in the rate and base of the property tax have on local revenues; a state-financed property tax circuit breaker; an intergovernmental "fiscal fair play" policy, calling for state reimbursement of state-imposed mandates on local government; and a tax utilization philosophy that recognizes the best property tax is a moderate tax.

An ACIR staff team composed of Assistant Directors David Walker and Carl Stenberg and Federal Relations Associate Michael Mitchell testified twice before the Senate Subcommittee on Intergovernmental Relations on federal grant reform.

On July 12, the ACIR representatives urged the subcommittee to pass *The Federal Assistance Paperwork Reduction Act,* (S.3267), legislation drafted by Senate and ACIR staffs. S.3267 calls for a variety of reforms recommended by ACIR, including simplifying and streamlining across-the-board federal requirements, providing greater certainty to state and local aid recipients through advance appropriations, and extending and strengthening the joint funding process.

While no panacea, this legislation "should be viewed as a significant move forward—but not the final step—in what must be a continuing effort to improve the grant system," said the ACIR representatives.

On August 2, the ACIR panel testified on S.3277, *The Small Communities Act of 1978.* The ACIR statement focused on Title V of the proposed bill which calls for consolidation of federal assistance programs. Under the process established by S.3277, the President would send to the Congress consolidation packages composed of categorical grants in the same functional area. The President could activate a consolidation proposal only after it received the approval of both houses of Congress.

The ACIR representatives strongly supported passage of the consolidation portion of the bill which they said represents "an effective and politically feasible tool for streamlining the structure of federal grants-in-aid and for making these programs more responsive to the needs of state and local governments, of the people they serve, as well as of the nation."

Commission Member News

- ☐ Minnesota House Speaker Martin O. Sabo is the Democratic nominee for Congress in that state's Fifth Congressional District.
- ☐ Florida Governor Reubin O'D. Askew will retire as governor in January 1979.
- ☐ Montgomery County (Tenn.) Judge William O. Beach is the new president of the National Association of Regional Councils (NARC).

And Briefly Books

The first four publications are recent reports of the Advisory Commission on Intergovernmental Relations, Washington, D.C. 20575. Single copies are free.

Changing Public Attitudes on Governments and Taxes (S-7)

This is the seventh annual survey of public attitudes on major intergovernmental fiscal issues. The survey, conducted by Opinion Research Corporation prior to passage of Proposition 13 in California, showed no major increase in disapproval of the property tax nationally.

Unlike national polls asking similar questions following passage of Proposition 13, respondents to ACIR's poll believed the federal government gave them "the most for their money." There appeared to be a distinct polarization in the view of the electorate on two issues: whether the federal government exercises too much or too little power and whether special federal aid should be provided to needy central cities. There was no clear consensus concerning the ability of state and local governments to deal with problems.

The report includes a variety of tables classifying respondents by age, sex, education, income, region, race and other characteristics. Also included in this report are cumulative findings of the six previous surveys.

State Mandating of Local Expenditures (A-67)

State mandates have been used in a wide range of local government activities to provide for more uniform service levels, higher professional standards for public personnel, and other objectives of statewide interest. This report discusses arguments for and against mandates and makes recommendations to ensure fairness toward local interests. The results of a survey conducted by the Commission with the cooperation of various national associations of state and local officials are also included.

The report looks at individual states such as New York, California, and Colorado to show what areas of local activity are affected by mandates and what provisions have been made to protect local interests. The California program which provides for reimbursement to local governments for costs resulting from state mandated activities is discussed in detail, as well as the situation in New York which has the highest number of mandated programs in the nation.

In Brief—State Mandating of Local Expenditures (B-2).

This report, part of ACIR's new series of short reports summarizing the Commission's major studies, highlights the Commission's work described above.

In Brief—The Intergovernmental Grant System: An Assessment and Proposed Policies (B-1).

This report highlights findings of the Commission's 14 volume work on the intergovernmental grant system. It includes a brief description of the various types of grants, their method of distribution, and their effect on state and local governments. The "In Brief" focuses on the Commission's five point strategy for grant reform which calls for: grant consolidation, reconsideration of national policy requirements, simplification and standardization of grants management procedures, careful program design and assessment and consideration of functional allocation.

The following publications are available directly from the publishers cited. They are not available from ACIR.

Tax Wealth in Fifty States, by D. Kent Halstead, U.S. Department of Health, Education and Welfare, National Institute of Education. U.S. Government Printing Office, Washington, D.C. 20402. (Price not available).

This report uses a "representative tax system" approach to make comparisons of tax capacity and effort among the various states and regions and to see what trends have developed over recent years. Tables for each state show the capacity, collected revenue, and over- and under-utilized potential for 21 types of taxes and the ranking of each state against a national average.

Will Federal Assistance to California be Affected by Proposition 13? (GGD-78-101), U.S. General Accounting Office, Distribution Section, Room 4522, 441 G Street, N.W., Washington, D.C. 20548. Free for government officials, libraries, faculty, and students; $1.00 for the general public.

Proposition 13: Its Impact on the Nation's Economy, Federal Revenues, and Federal Expenditures, U.S. Congressional Budget Office, U.S. Government Printing Office, Washington, D.C. 20402.

State Laws Governing Local Government Structure and Administration, by Melvin B. Hill, Jr. Institute of Government, University of Georgia, Terrell Hall, Athens, Georgia 30602. $4.

City Need and the Responsiveness of Federal Grants Programs, U.S. House of Representatives, Subcommittee on the City of the Committee on Banking, Finance and Urban Affairs, U.S. Government Printing Office, Washington, D.C. 20402.

Taxation. Myths and Realities, edited by George F. Break and Bruce Wallin. Addison-Wesley Publishing Co., 725 San Hill Road, Menlo Park, Calif. 94025.

Encouraging Regionalism: A Proposed Federal Initiative, by Arthur Naftalin and Reynold Boezi. Academy for Contemporary Problems, 1501 Neal Avenue, Columbus, Ohio 42301.

The Regional Impact of Federal Tax and Spending Policies (Working paper No. 0000-06-05), by George E. Peterson and Thomas Muller. Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037.

Two articles in the June 1978, **National Tax Journal** are also noteworthy.

"Uniform Assessment of Property: Returns from Institutional Remedies," by John H. Bowman and John L. Mikesell, pp. 137-151.

"Is there a Fiscal Crisis Outside New York?" by J. Richard Aronson and Arthur E. King, pp. 153-163.

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July 3, 1978

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The Chairman of the Advisory Commission on Intergovernmental Relations has determined that the publication of this periodical is necessary in the transaction of the public business required by law of this Commission. Use of funds for printing this periodical has been approved by the Director of the Office of Management and Budget through April 30, 1979.

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