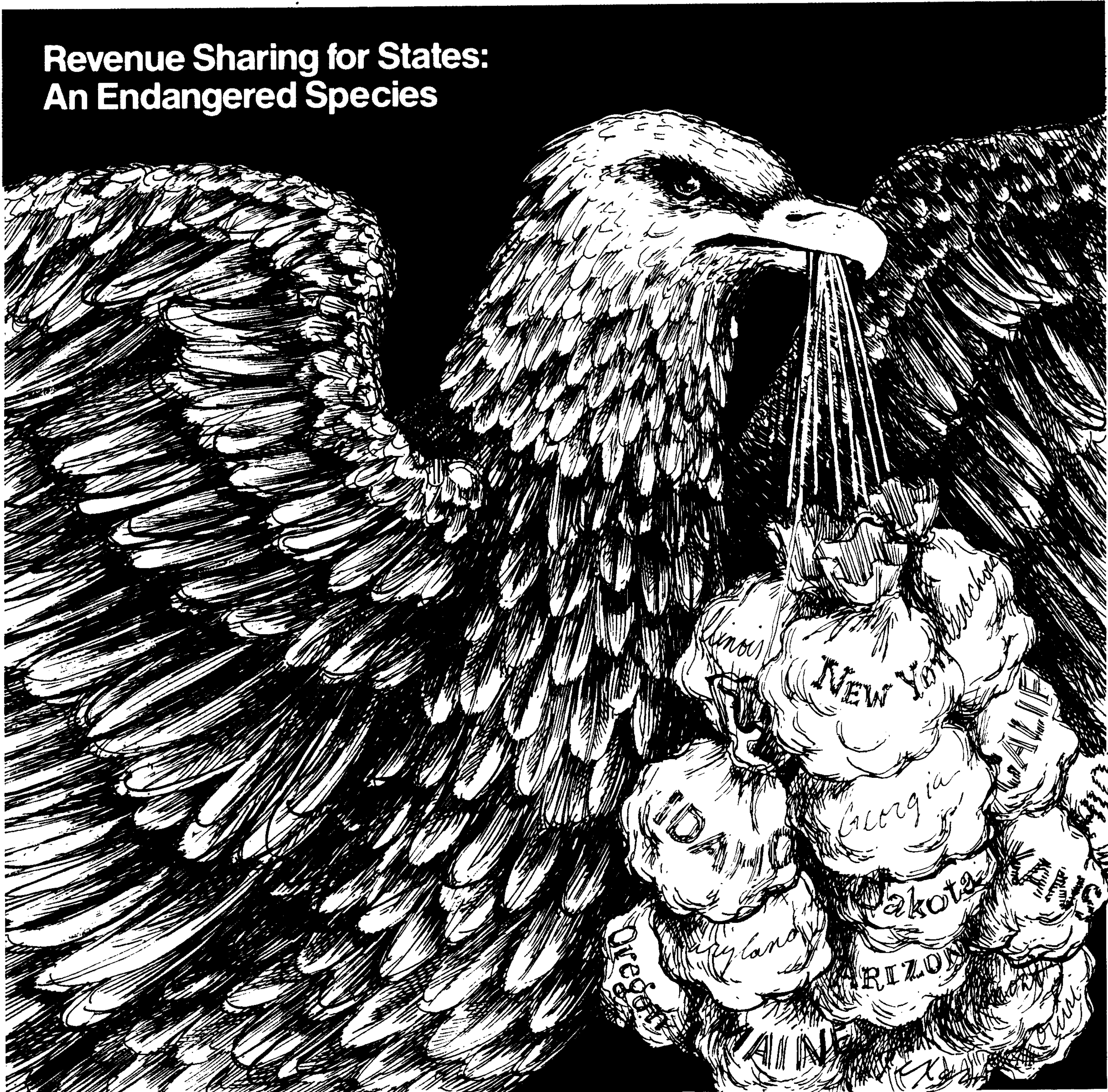
. Ad 9/8
5/3
DUPLICATE
RECEIVED
FEB 5 1980
DOCUMENTS LIBRARY
I. S. U.

Summer 1979, Vol. 5, No. 3

Intergovernmental PERSPECTIVE



ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

View From The Commission

Dear Reader:

I am delighted to have this opportunity to introduce this important issue of *Intergovernmental Perspective* which presents the case for renewal of General Revenue Sharing and for retention of the states in the program.

As chief executive of a state that has to balance its state budget, I support the concept of a balanced budget at the federal level—though not by constitutional amendment. Yet, such balancing, after a pattern of deficit spending and with a budget as complicated and as immense as our federal budget, will not be easy.

In an effort to aid the Administration and the Congress in this monumental task, the Governors of this nation are putting together our recommendations for categorical aid programs which can be consolidated, simplified, and/or eliminated. We are also noting regulations and mandates which seem to be particularly costly or duplicative. The results of this effort should provide considerable guidance to the Congress and the Administration as to where to cut and how.

It is my opinion that the revenue sharing program should be the *last* program to be reduced or cut. It is the most flexible of all aid programs. State and local officials, who are closest to the needs of the people, can target revenue sharing dollars for use in areas they deem most necessary. Finally, revenue sharing has the lowest overhead costs of all programs and is the federal program most directly related to holding down property taxes.

Yet, it is the revenue sharing program that many Congressmen want to cut—and most particularly the state share. Many of the arguments are long-standing and relate to Congress' dislike of "handing out" billions of dollars to states and localities for purposes not decided in Washington. Not surprisingly, the major strength of the program to recipients—its flexibility—is its fatal weakness in the view of many Congressmen who complain that they do not know how the revenue sharing money is being spent.

Timely fiscal arguments are also raised by those on Capitol Hill who question why a "deficit-ridden" federal government should assist states to keep their tax rates constant or reduce taxes. And what about those legendary state surpluses, some ask.

These and related questions are answered in this issue of *Intergovernmental Perspective* in an article co-authored by ACIR Assistant Director John Shannon and Senior Analyst Will Myers. They also present a strong case for keeping the states in the General Revenue Sharing program. They note that the fiscal and decisionmaking imbalances that prompted passage of General Revenue Sharing in 1972 still exist in the federal system and the federal government retains its unique capacity to remedy these weaknesses through unrestricted aid to state and local governments.

They point out that General Revenue Sharing allows state and local officials wide discretion in responding to the varying demands of their constituencies—an especially important consideration in these times of reassessment of governmental activity and performance. And they make clear that the distribution of general revenue dollars under the present formula reduces somewhat the fiscal disparities between the rich and poor states and between the have and have not localities within each state.

The arguments raised in this issue of *Perspective* should prove timely and helpful to the Congress and the Administration in considering the future of General Revenue Sharing. In March, ACIR reaffirmed its strong support for General Revenue Sharing, urging reauthorization for states as well as localities. ACIR believes the retention of the states in General Revenue Sharing is important to the continued well being of American federalism. I wholeheartedly concur.

Richard W. Riley

Richard W. Riley
Governor of South Carolina

Summer 1979, Vol. 5, No. 3

Intergovernmental PERSPECTIVE

2 View from the Commission

South Carolina Governor Richard Riley discusses the importance of continuation of the federal revenue sharing program and retention of the states in the program.

4 Intergovernmental Focus

Numerous States Reduce Taxes, Enact Spending, Tax Limits
Sunset Concept Gaining in Congress, States
States Act to Set Up Intergovernmental Forums
The White House and the Congress Initiate Grant Reform Efforts
1980 Census, Mid-Decade Census Planning Underway
Congress Considers Several IGR-Related Measures
Legislation Introduced to Amend Buck Act, Allow Certain Taxes on Military Bases

10 Revenue Sharing for States: An Endangered Species

ACIR Senior Analyst Will Myers and Assistant Director John Shannon highlight the recent Congressional debate over the states and general revenue sharing and present a strong case for retaining the states in the continuation of the program.

19 ACIR News

Governor Dalton, Speaker McCarthy Named to Advisory Commission
ACIR Adopts Recommendation on Mortgage Revenue Bonds
ACIR Chairman, Members Testify on Sunset, Mortgage Revenue Bonds, GRS
Cigarette Bootlegging Law Results in Arrests, Federal-State Cooperation
ACIR/NAPA Develop Indicators of State Efforts to Aid Localities
ACIR Poll Reveals Change in Public Perception of Washington

22 A Fiscal Note: Our Intergovernmental Tax System: 50 Years of Growth and Change

23 And Briefly: Books

24 ACIR Members

Staff

Executive Director:
Wayne F. Anderson
Assistant Directors:
John Shannon
Carl W. Stenberg
David B. Walker
Editor:
Carol S. Weissert
Contributors:
Richard Gabler
Pat Koch
Michael Mitchell
Jane Roberts
Frank Tippett

Intergovernmental Perspective is published four times a year by the Advisory Commission on Intergovernmental Relations, Washington, DC 20575.

SOUTHWESTERN UNIV.
LAW LIBRARY

NOV 01 1989

GOVT DOCUMENTS 50B

Intergovernmental Focus

Numerous States Reduce Taxes, Enact Spending, Tax Limits

Perhaps not surprisingly, the year following passage of California's Proposition 13 and its relatives has produced a spate of enactments to reduce state and local taxes.

Property tax relief and income tax reductions were the most popular actions, but a number of states produced spending or taxing limits as well.

While many of the income tax reductions were geared to the middle income taxpayer, a number on the property tax front were aimed at the poor, near-poor, and/or elderly or disabled. There were several efforts to protect all income levels from automatic tax increases due to inflation and to exempt certain items such as heating fuel, food, and drugs from state or local sales taxes.

At least seven states placed ceilings on state and/or local spending or on property tax collections. One state modified an existing ceiling and two others placed measures on the ballot to limit state spending.

Nevada and **Utah** set limits on both state and local spending (**Utah's** local lid is technically on revenues); **Florida, Massachusetts,** and **New Mexico** put a lid on property tax revenues that can be collected. **Nebraska** set a limit on local spending; **Oregon** on state spending.

In addition, **Kentucky** and **Tennessee** enacted "truth in taxation" laws; **Virginia** tightened an existing measure. **Idaho** modified a statutory spending ceiling enacted in 1978.

California voters will decide in November 1979 if they want to limit state and local spending; **Washington** voters will decide whether to set a lid on state spending.

At least 25 states enacted measures to expand property tax relief programs. Direct property tax refunds were provided by **Utah, Oregon,** and **Montana.**

In **Oregon,** the state will now pay 30% of the property taxes due on an individual's homestead, up to a maximum of $800 per house. The measure also increased the maximum property tax refunds allowed to homeowners and renters.

A 1979 **Montana** enactment grants a direct payment equal to the lesser of the amount of property tax due on his principal residence for the current year or $65.

In **Utah,** under 1979 legislation, an owner may claim a refund equal to 27% of the property taxes levied on the dwelling beginning in calendar year 1979. Renters are entitled to a refund equal to 2.7% of the rent, or $100, whichever is greater. The legislature also reduced the assessment rate from 30% to 25% of reasonable fair cash value.

There was also considerable relief provided on the income tax front. All told, there were eight actions to increase personal exemptions, seven to increase standard deductions, two to increase property tax credits, six to lower rates, four to adjust income brackets to inflation, and six to provide special rebates or credits.

Probably the most unusual action took place in **Wisconsin** where all state income tax withholding was halted for the months of May and June. In addition, Wisconsin lowered personal income tax rates, "indexed" the income brackets to the change in the national consumer price index, raised the standard deduction, provided an income tax credit equal to 12% of property taxes or rent constituting property taxes, and established a special tax credit equal to 16% of tax liability, up to $900, for 1979 only.

Minnesota lowered the tax rate at the highest bracket, "indexed" the brackets and credits, raised standard deductions, and increased refunds allowed for property taxes or rent constituting property taxes.

Oregon taxpayers will receive a 9% rebate of their Oregon 1978 individual income tax liability. Oregon also increased the personal exemption and, subject to voter approval at the next primary election, will index the amount of the personal exemption for each tax year after 1980.

Vermont lowered its income tax rate from 25% to 23% of the taxpayer's federal income tax liability. Also, any individual with an income below $7,000 is entitled to a tax credit equal to a percentage of the tax due.

Twelve states enacted changes in their general sales taxes, many of these exempting drugs, food, or home heating fuel from the tax.

The tax increase side of the ledger was primarily found in the selective sales taxes area. Taxes on cigarettes, motor fuel, and alcohol were increased in several states.

Sunset Concept Gaining in Congress, States

Supporters of S. 2—the "Sunset Act of 1979"—increasingly are confident that Congress will pass a sunset measure this session. President Carter supports the sunset concept and has indicated that he would sign the bill. Mark-up on S. 2 may be completed by the Senate Governmental Affairs Committee by the end of summer. Hearings in the House will be held in the fall. Sunset provisions also have been included in reauthorization proposals for specific programs, such as the Law Enforcement Assistance Administration.

S.2 would limit the life of virtually every federal program to ten years. There are some exceptions—notably civil rights activities, veterans' benefits, Social Security and retirement programs, and federal judicial programs. Under provisions of the bill, analysis of programs, grouped by similar functional area, would be conducted by the appropriate oversight committees. The purposes of the analyses would be to determine whether a program should continue as is, be modified or terminated; and to identify areas of duplication and overlap.

The bill addresses two longstanding recommendations by ACIR: periodic review of federal aid programs, originally adopted by the Commission in 1961; and grant consolidation, first recommended in 1967. Both of these recommendations were reaffirmed by

the Commission in 1977—and the concept of "sunset legislation" specifically endorsed—as part of the Commission's comprehensive analysis of the intergovernmental system. In testimony before the Senate Governmental Affairs Committee in mid-June, Chairman Abraham Beame described ACIR's position on sunset and encouraged passage of S. 2. (See ACIR News, *page 20*).

The Congressional review process embodied in S. 2 is at least partially provided for in the **Intergovernmental Cooperation Act of 1968.** However, that provision covers only those grants with no termination date and does not stipulate a review procedure for programs having specific authorization periods. S. 2 would strengthen this process, substantially expand its scope and its likelihood of becoming effective, and take a new Congressionally oriented approach—practically on an across-the-board basis—toward federal program evaluation.

The sunset concept—under which programs or agencies would automatically go out of existence if they were not periodically reviewed and reauthorized by the legislature—was originated and has been highly popular at the state level. Since the passage of the first sunset law in **Colorado** in 1976, the idea has been widely embraced, with 32 states now having sunset laws which focus for the most part on the review of regulatory and licensing activities. In addition, the states of **Iowa** and **Virginia** have legislated mandatory program evaluations but with an automatic termination provision. In **Kentucky** and **New Jersey**, sunset reviews of administrative regulations are conducted under provisions of executive orders. The City of Austin, **Texas**, also has enacted a sunset ordinance that applies to boards and commission, although it lacks an automatic termination provision.

States Act to Set Up Intergovernmental Forums

During the last decade, there has been a dramatic increase in state efforts to address state-local relations through the enactment of laws to increase the structural, functional, and fiscal discretion of municipalities and counties. States also have authorized and encouraged local government cooperation, improved management and fiscal administration, and better methods of communications between local officials and the state legislative and executive branches of government.

In the course of these efforts, there also has been extensive experimentation by the states with various types of advisory groups. For example, at least 20 states have advisory bodies to their departments of community affairs, while over 20 states have a permanent or temporary organization dealing with local government issues—such as a state ACIR. And, at least four more states have acted in recent weeks to establish or strengthen such mechanisms: **South Carolina, Tennessee, Maine, and North Carolina.**

In the spring, **South Carolina** Gov. Richard Riley signed an executive order establishing a state ACIR. The 11-member panel draws its membership from the legislature; the municipal, county, and regional council associations; and the general public. The commission has been charged with evaluating the interrelationships among local, state, interstate, and federal agencies; examining and assessing the impact of federal and state programs on localities; and studying the economic, administrative, tax, and revenue issues for all levels of government. The panel currently is reviewing its goals, missions, and research agenda for coming months.

The **Tennessee** ACIR was activated recently, following the passage of enabling legislation last year. The commission is composed of 21 members representing city and county governments, the general public, and the state's executive and legislative branches. The commission is to serve as a forum for the discussion and resolution of intergovernmental problems. Members now are addressing alternatives for staffing, a budget, and an initial work program.

Maine Gov. Joseph Brennan utilized the state's first "municipal officials' day" earlier this year to announce the formation of the Governor's Municipal Advisory Council. The council is composed of 11 local officials, and will serve—according to the Governor—"as an instrument to discuss issues of common concern and to help formulate policies in areas affecting the municipalities in Maine." Issues which already have been the subject of discussion include school finance, tax exempt property, solid waste management, and state-municipal revenue sharing.

In **North Carolina**, the General Assembly acted to codify and expand the Local Government Advocacy Council that Gov. Jim Hunt had established by executive order last year. The council now is part of the new Office of Local Government Advocacy within the Governor's Office and has been increased from 15 to 19 members to include representatives from the legislature. The panel has a broad mandate to "advocate" local government interests and to evaluate the impact of current and proposed state policies and programs on local government.

Efforts to establish similar intergovernmental forums also are underway in such states as **Vermont, New Hampshire, and Washington.**

The White House and Congress Initiate Grant Reform Efforts

Contemporary events, including inflationary pressure, interest in a balanced federal budget, and the slowdown in the growth rates of grants-in-aid, are focusing attention on intergovernmental grant system reform. During the past few months, reform efforts have been initiated in both the Congress and the White House.

In Congress

Congressional interest in reducing the cost of government is reflected in the numerous regulatory reform, federal mandate reimbursement, sunset, and paperwork reduction measures now before the 96th Congress.

One omnibus proposal which incorporates a number of these strategies is the "Federal Assistance Reform Act" (FARA), S. 878, introduced this spring by Senators William V. Roth (DE), Gaylord Nelson (WI), John C. Danforth (MO), and Max S. Baucus (MT). Senator James R. Sasser (TN), Chairman of the Subcommittee on Intergovernmental Relations, joined the measure as a co-sponsor on August 2.

An identical companion bill was introduced in the House as H.R. 4504 on June 18. The prime sponsor in the House is Congressman Les AuCoin (OR) with co-sponsorship by Congressmen Clarence J. Brown (OH), Lee H. Hamilton (IN) and Tom J. Corcoran (IL).

The five-title proposal encompasses procedural, structural, and management steps designed to improve our excessively complex grant system.

Title I would make uniform ten of the more than 30 national policy requirements or "cross-cutting regulations" in such areas as civil rights and environmental protection. Title II would establish a grant consolidation process for federal aid programs in the same functional area. Title III would renew and strengthen the **Joint Funding Simplification Act of 1974**. Title IV would encourage advance appropriation of federal funds. Title V would amend the **Intergovernmental Cooperation Act of 1968** to provide better federal aid information to local governments, encourage use of the single state agency waiver by federal agency administrators, and create a standard statutory maintenance of effort provision.

FARA was the subject of hearings before the Senate Subcommittee on Intergovernmental Relations on July 27. Testifying were representatives from the National Association of Counties, the National League of Cities, the American Association of Small Cities, the National Association of Towns and Townships, and the National Council of State Auditors.

Two additional grant reform hearings will be held in September, featuring statements from the National Governors' Association, the National Conference of State Legislatures, the U.S. General Accounting Office, the Office of Management and Budget and ACIR, among others. Hearings as yet are not scheduled in the House.

In The White House

Improvement of the federal aid system is one of the basic themes of the Carter Administration as well. Through several Executive Orders and memoranda in 1977 and 1978, the President launched measures to simplify the intergovernmental process, reduce governmental costs, and assure participation of elected officials and private citizens in federal level decisionmaking.

The most recent example of the Carter Administration's commitment to federal aid system reform is the proposed "Regulatory Reform Act of 1979," one of many regulation reform measures now before the 96th Congress.

The Carter proposal would require federal agency officials to assess the costs and benefits of proposed rules and to select from among the alternatives the most cost-effective means of achieving program goals.

The Administration's statement on the role of state and local governments in the inflation fight also underscores grant reform as a means of holding down governmental costs. The statement supports several principles contained in proposed FARA legislation including grant consolidation, improved joint funding, and simplification of certain generally applicable national policy requirements.

OMB Studies

Beyond these broad gauged administrative attempts to reform the grant system, a number of efforts now underway within the Office of Management and Budget are designed to enhance specific aspects of the federal aid structure.

Improving Grant Information. One of these projects deals with the content and method of dissemination of information on federal grant-in-aid programs.

OMB now is attempting to improve the timeliness and availability of federal aid data by enhancing its computer systems in the program information area through:

- ☐ merging the data contained in the **Catalog of Federal Domestic Assitance** with data in the Federal Assistance Programs Retrieval System (FAPRS)—a system developed by the Department of Agriculture to assist potential recipients in determining which programs might best mesh their needs with federal eligibility requirements;
- ☐ improving the FAPRS output by providing selective retrieval (by section) of textual information in FAPRS and a report of circular coordination requirements for programs selected; and
- ☐ studying the feasibility of placing Treasury Circular 1082, used to identify grants awarded, on computer. A computer data file for federal grant awards obligated from the beginning of the current fiscal year is now being created for five states—Florida, Massachusetts, Minnesota, New York, and Virginia.

Improvements in the **Catalog of Federal Domestic Assistance** are underway, as well. The new sections in the 1979 catalog will supply the criteria used for the selection of proposals and examples of projects that have been funded. The functional index has been revised and expanded and the format for the applicant eligibility indexes has been revised to make them easier to use. OMB anticipates more frequent editions of the catalog with two updates annually to supplement the original copy.

OMB also is giving consideration to the means by which a notification of when all funds have been committed for a given program could be obtained through the catalog and FAPRS.

Joint Funding. A second area of recent OMB activity in the grant reform area relates to the joint funding process, which allows great recipients to draw upon federal aid resources from more than one federal

program to achieve a common purpose or single goal.

In April the OMB submitted to the Congress a report assessing the implementation of the **Joint Funding Simplification Act of 1974**. The OMB study found that use of the joint funding process has been limited: only ten new projects have been funded since the act was passed. In fact, more joint funding projects were established under the pre-1974 demonstration project (Integrated Grant Administration) than under the act.

Among the reasons for the limited usage of the joint funding process, the OMB report cited:

- ☐ inadequate OMB leadership, support, and oversight to assure aggressive compliance by federal agencies;
- ☐ lack of commitment on the part of federal funding agencies to implement joint funding or to relate the process to their own program objectives;
- ☐ problems in the design and administration structure of the joint funding circular (A-111) and the need for clarification of the relationship of A-111 with other OMB financial management circulars;
- ☐ statutory and administrative barriers to implementation of the act; and
- ☐ the permissive nature of the act and organization of the process in terms of federal agency participation.

While the record under the act is weak, OMB found that for certain applications the joint funding process does permit the packaging of related programs to simplify grant management.

To improve the joint funding process OMB recommended that:

- ☐ Congress extend the **Joint Funding Simplification Act of 1974** for a minimum of five years;
- ☐ OMB circular A-111 be reviewed and reissued in a clearer more concise form;
- ☐ OMB assume a stronger role in training participants in the joint funding process and managing the execution of projects under the act;
- ☐ awards and incentives be used to recognize federal staff efforts in successful joint funding efforts; and
- ☐ federal agencies cooperate with the White House Interagency Coordinating Council and OMB to encourage joint funding projects, identify statutory and regulatory inhibitions to these efforts, and to encourage delegation of additional authorities to field offices.

Despite the permissive language of the 1974 act and the poor joint funding record, the OMB report did not recommend any changes in the wording of the act.

Planning Requirements. A third OMB effort relates to consolidating and simplifying planning requirements.

Planning requirements for federal aid programs are tied closely to the paperwork problems faced by state and local governments. According to OMB analysis prior to the recent reforms, 160 grant-in-aid programs required local governments to meet 3,500 separate planning requirements. The resulting overlap and conflict frustrated the purposes of some aid programs.

According to its report released in March, OMB has made significant progress in its bid to reduce the paperwork burden imposed by federal aid planning requirements. OMB Director James McIntyre has noted that nearly all agencies participating in the planning simplification project have made improvements, with particularly notable progress in the following areas:

- ☐ **Agriculture**—The Food and Nutrition Service is overseeing the consolidation of separate state planning requirements for five child nutrition programs into one state plan. The five programs cover over $3 billion annually.
- ☐ **Appalachian Regional Commission and Farmers Home Administration**—FHmA, wherever possible, will accept program priorities of ARC substate planning districts.
- ☐ **Environmental Protection Agency**—EPA will publish revised state and areawide water quality management regulations which will eliminate 50 and consolidate or simplify 45 of the 130 existing requirements.
- ☐ **Health, Education, and Welfare**—HEW has simplified half of the 700 planning requirements under consideration.
- ☐ **Interior**—The Heritage Conservation and Recreation Service has reduced from 25 to five the number of mandatory planning requirements for its $250 million Land and Water Conservation Fund.
- ☐ **Justice**—The Law Enforcement Assistance Administration has completed the consolidation of the state planning process which, in tandem with proposed statutory changes, will result in a 75% reduction in paperwork.

FRCs. In another area related to grant reform, the Administration has clarified the future of the Federal Regional Councils (FRCs). The President has abolished the Under Secretaries Group which had overseen the FRCs and established a direct linkage between the FRCs and the Interagency Coordinating Council (IACC) under Assistant to the President for Intergovernmental Affairs Jack Watson. The FRCs will continue as the Administration's interagency mechanism in the field to coordinate the implementation of federal policies with the overall Administration policy. Further, the FRCs are to be a primary conduit for communication between state and local officials and the Administration.

The FRCs also will continue their role as the field managers of the OMB grant management circulars. The recent Presidential review additionally resulted in the decision to permit designation of the same person to serve as chairperson of the FRC and federal co-chairperson of the Title V Commission for the given area.

Further information on these actions or on ACIR's efforts to assess

compliance with several elements of the President's September 7, 1977, memorandum may be obtained from ACIR.

1980 Census, Mid-Decade Census Planning Underway

Counting and describing over 222 million people in 39,000 general purpose governments is no small task.

The job is even more difficult when the stakes are considered: legislative apportionment, hospital planning, corporate marketing strategy, and, perhaps most importantly, some 83 of the 146 formula-based categorical grants use population data collected in the census.

The Census Bureau within the Department of Commerce, assigned this difficult task, is now in the final planning stages for the count scheduled for next year. But controversy surrounds the endeavor, and recent cuts by the Congress may well impact on the role of local governments in verifying data for their jurisdictions.

Controversy surrounding the 1980 census focuses on three aspects: undercounting of minorities and inner-city residents; expense; and overly complicated forms.

In the 1970 census, the undercount of the white population was about 1.9%; the undercount for blacks around 7.7%. Many of these undercounts occurred in urban areas which have since protested shortchanging in federal aid as a result. Baltimore and Newark sued (unsuccessfully) in an effort to get their census counts raised.

Efforts have been made to reduce this undercount discrepancy in 1980, but there are still many skeptics who feel that adjustments should be made to figures collected in order to achieve still more accurate data.

The 1980 census is expected to cost about $1 billion—considerably more than its 1970 counterpart which cost $225 million. Much of the increase is due to inclusion of new data and more thorough coverage, according to the Census Bureau.

And finally, some critics rail against the overly complicated forms. One in six households will receive a 20-page, 68-question document in the mail which will take approximately 45 minutes to fill out. The rest of the country will get the shorter 4-page, 19-question survey which will take an estimated 15 minutes to fill out.

One element of the 1980 census of special interest to local officials was the Local Review Program which would allow local officials to review the preliminary housing and population counts while the census field offices were still open. This program would allow localities to discover possible undercounts and perhaps make adjustments early in the process. It was highly popular with city and civil rights groups. However, the House Appropriations Committee, in the course of reducing the expenditures for the 1980 census by 7%, recently eliminated its funding. Efforts are being made to reinstate full funding for the program in the Senate.

Realizing the importance of up-to-date census data in federal aid formulas and in other uses, the Congress in 1976 enacted legislation requiring a mid-decade census of population beginning in 1985. The law was intentionally flexible and avoided prescribing by law the scope and contents of the mid-decade census, so that the Census Bureau could take into account its data needs for 1985. The law specifically prohibits the use of mid-decade census results for apportioning the House of Representatives but anticipates use of the data for updating figures upon which federal aid allocations are based. The Congress also intended the mid-decade program to amplify and clarify some of the 1980 data and to satisfy some of the statistical needs now met through special purpose surveys.

The Census Bureau is now soliciting views of federal agencies and state and local governments concerning what data they would find most useful from the mid-decade census.

Congress Considers Several IGR-Related Measures

In the final weeks of the Congress prior to its August recess, action was taken on several issues of intergovernmental significance including countercyclical aid, regulatory reform, and reform of the electoral college.

Countercyclical Aid

By a vote of 69-23, the Senate on August 3, approved S. 566, the "Intergovernmental Antirecession and Targeted Fiscal Assistance Amendments of 1979."

This countercyclical aid measure, which received extensive consideration in the Senate Finance Committee and its Subcommittee on Revenue Sharing, would provide 2,100 economically distressed communities with $340 million in federal aid during fiscal year 1980. The $340 million would be distributed in quarterly payments to local governments with unemployment rates of 6% or more.

The Senate proposal would also create a standby countercyclical aid program for state and local governments whose unemployment rates are 6% or more when the national rate is 6.5% or higher. The standby plan would provide $125 million per quarter plus an additional $30 million for each one-tenth of 1% that national unemployment exceeds 6.5%. The two-tier approach is designed to accommodate both immediate needs of economically distressed state and local governments and prospective needs in a time of severe economic downturn.

The legislation faces stiff opposition in the House where a Senate-passed measure failed passage at the end of the 95th Congress.

The ACIR has recommended that Congress enact an "accordion" antirecession aid program that automatically expands to provide aid to distressed jurisdictions as unemployment rates rise and automatically contracts to provide aid to fewer jurisdictions as unemployment rates fall. The Commission further recommended that Congress

establish a permanent public service countercyclical aid program and local public works program on a standby basis. These programs would be triggered only when the national unemployment rate rises to a specified level.

Regulatory Reform

Regulatory reform remains a high priority for the Carter Administration and the 96th Congress. The Administration has responded to the public call for regulatory simplification with administrative and legislative actions designed to limit the cost and intrusiveness of government regulations.

After lengthy hearings, the Senate Governmental Affairs Committee has begun the mark-up of regulatory reform legislation. The primary bills under consideration are Committee Chairman Abraham Ribicoff's S. 262 and the Administration's S. 755, related measures designed to assess and control the cost of proposed regulations and to assure a periodic review of certain existing rules.

As the legislative mark-up proceeds, the committee will consider several additional regulatory reform concepts included in other pieces of legislation. Among these are a sunset process for regulatory agencies (S. 445 Sen. Charles Percy, IL), a process requiring clear justification for proposed rules (S. 93 Sen. Thomas Eagleton, MO), a legislative veto of administrative regulations proposal, (S. 410 Sen. Sam Nunn, GA), a proposal granting Presidential authority to resolve conflicting agency interpretations of rules, (S. 1545 Sen. William Roth, DE), and so-called "high noon" proposal which establishes a Presidential commission to evaluate one regulatory agency per year (S. 1291 Sen. Edward Kennedy, MA).

The Governmental Affairs Committee's regulatory mark-up will proceed through the month of September. Following action there, the amended legislation will move to the Senate Judiciary Committee which will have 45 days for consideration of the proposal.

Electoral College Vote

On July 10, the Senate voted down SJRes 28, the proposed constitutional amendment to abolish the electoral college and to elect the President by direct popular vote. The measure was supported by a 51-48 margin but fell 15 votes short of the two-thirds majority of Senators present and voting which is required for passage of a Constitutional amendment.

In creating the direct Presidential election process, SJRes 28 would have provided that in cases where no candidate received 40% of the popular vote, a runoff election would be held between the top two vote getters. The amendment would have taken effect two years after the ratification by the three-fourths of the legislatures.

Those favoring the resolution argued that the electoral college system courts constitutional disaster because it would permit a candidate who lost the popular vote but garnered a majority of the electoral college votes to attain the highest office of the land. All states except Maine have a winner-take-all system whereby the popular vote winner receives all of the electoral college votes for that state. In Maine, electoral votes are awarded to the popular vote winner in each Congressional district, with two additional electoral votes going to the statewide winner. Most states are reticent to adopt the Maine approach or a proportional plan variation because they exert more election day influence under the electoral college system.

Those opposing SJRes 28 argued that no change is needed because the system has operated effectively to date. No House action or direct Presidential election is planned in this session, and the Senate in all likelihood will not consider the issue again in this Congress.

Legislation Introduced to Amend Buck Act, Allow Certain Taxes on Military Bases

Legislation has been introduced in the Senate (S. 715) which would permit state and local governments to collect taxes on tobacco products and alcoholic beverages sold on military and other federal reservations.

S. 715, sponsored by Sen. Henry Bellmon (OK), would remove the exemptions for sales of tobacco products and alcoholic beverages through an amendment to the **Hayden-Cartwright Act**, the federal law authorizing state and local taxation of gasoline sold on federal reservations.

In introducing the bill, Sen. Bellmon noted the substantial revenue lost to state and local governments from the federal exemption provided in the **Buck Act of 1940**. He cited ACIR figures from fiscal year 1975 that states lost some $130 million from the sale of cigarettes alone.

He also noted the inconsistency in the federal campaign against cigarette smoking at the same time that current federal law essentially encourages smoking by providing a subsidy to military personnel who smoke.

Several public interest groups have recently supported the lifting of exemptions. The National Association of Counties, in its July meeting, adopted a policy resolution calling for removal of military exemptions on both sales and income taxes. The National Association of Attorneys General and the National Alcoholic Beverage Control Association adopted resolutions urging Congress to amend the **Buck** Act to permit states to tax cigarettes, liquor and general sales items. The National Tobacco Tax Association and the National Association of Tax Administrators have adopted similar resolutions for the past several years.

The ACIR recommended lifting the bans on both income and sales taxes on military base purchases in a 1975 report, **State Taxation on Military Income and Store Sales.**

While hearings have not yet been scheduled in the Senate Finance Committee, increased interest in S. 715 may spur action.

Revenue Sharing for States: An Endangered Species

By Will Myers and John Shannon

The recent Congressional debates on revenue sharing represent early and inconclusive skirmishes in what may well be a long, hard-fought campaign to establish the contours and character of the federal aid system for the 1980s. They also highlight the truly unique characteristics of the General Revenue Sharing program.

The quadrennial battle over revenue sharing serves as the single best forum for periodically evaluating the state of fiscal federalism. Other federal systems—Australia, Canada, and West Germany—have formal procedures for evaluating just where they are going on the fiscal federalism front. Forcing the revenue sharing program to run the Congressional gauntlet every four years serves somewhat the same function for our country.

No other major federal aid mechanism has engendered such cohesive state-local support. In 1972 and then again in 1976, a powerful coalition of state-local elected officials overcame strong Congressional resistance to revenue sharing. Despite vigorous attempts by the opponents of revenue sharing to split it, this state-local coalition still holds.

The federal revenue sharing program dramatically illustrates the dilemma of reconciling two conflicting objectives—political decentralization and fiscal accountability. The sharing of federal revenue with states and localities on a "no strings" basis becomes an act of power sharing. Many believe this action also divorces the pleasure of expenditure from the pain of taxation and thereby promotes fiscal irresponsibility.

The revenue sharing program has been given the slow strangulation treatment—allowed to twist slowly in the inflationary winds. Although the opponents of revenue sharing were not successful in killing this program in 1976, they were able to prevent its growth. Thus, inflation has eroded 40% of the purchasing power of federal revenue sharing dollars over the last eight years. *Table 1.*

Table 1

Total Revenue Sharing Funds by Entitlement Period: Current and Constant Dollars
(amounts in billions)

Entitlement Period	Current Dollars	Constant Dollars*	Constant as Percent of Current Dollars
Jan. 1972-June 1972	$2.650	$2.650	100.0
July 1972-Dec. 1972	2.650	2.555	96.4
Jan. 1973-June 1973	2.9875	2.7662	92.6
July 1973-June 1974	6.050	5.376	88.9
July 1974-June 1975	6.200	5.102	82.3
July 1975-June 1976	6.350	4.815	75.8
July 1976-Dec. 1976	3.325	2.396	72.1
Jan. 1977-Sept. 1977	4.9875	3.4297	68.8
Oct. 1977-Sept. 1978	6.850	4.439	64.8
Oct. 1978-Sept. 1979	6.850	4.107	60.0

*Based on Implicit Price Deflators for state and local government in the gross national product account.

Source: ACIR staff calculations.

In sum, no other federal aid program is as unpopular in Washington or as popular with state and local governments. An outspoken foe of General Revenue Sharing—**Congressman Jack Brooks** (TX)—is reported to have said if Congress had taken a secret vote at the time it was considering the renewal of revenue sharing back in 1976, the program would have been voted down in both houses by a margin of at least 2-to-1. If Congressman Brooks' assessment is correct, then the federal revenue sharing program with the states and localities can be characterized in Churchillian terms:

> Never in the long history of federal largesse have so many (40,000 governments) owed so much ($50 billion) to so few . . . cheerful givers.

What, then, are the current prospects for renewal of General Revenue Sharing?

CONGRESSIONAL DEBATES

On two occasions since January, Congress seriously considered proposals that would have pulled the General Revenue Sharing rug out from under state governments as of September 30, 1979, despite the fact that their entitlement was not scheduled to expire until the end of the 1980 fiscal year.

The supporters of revenue sharing had expected a real fight over the renewal of this program in 1980. While it was widely recognized that continued state participation would be a major battleground, most of them never dreamed that the struggle would begin so early. *Figure 1.*

The Attack on State Revenue Sharing

The debate in both houses of Congress brought out both fiscal and philosophical arguments. The opponents of revenue sharing have sharply defined the fiscal issue—why should a deficit-ridden federal government continue to provide unrestricted aid to state governments that have moved to easy street? The philosophical aspects of the debate centered on the traditional issues—accountability, national priorities, and state and local government fiscal dependency.

Federal Fiscal Squeeze. The cutback advocates argue that the federal government can no longer afford the full-scale program because its fiscal position has shifted radically from one of relative fiscal ease to that of fiscal stress.

The floor manager for the cutback proposal, **Senator William Proxmire** (WI), put the issue this way: "The overwhelming majority of the American people feel, and I think they are right about it, that excessive federal spending is one important element—not the only one, but one important element—in the rise in prices, in keeping them as high as they are, and in keeping government big, burdensome, and often as inefficient as it is."

The growing stringency of the federal budget situation was underscored by **Senator Edmund S. Muskie's** (ME) explanation for his decision to support the proposed cut in the revenue sharing entitle-

Figure 1

A "Perils of Pauline" Chronology of the State Revenue Sharing Entitlement

Jan. 31, 1979	Senators Bentsen and Proxmire introduced S. 263 to terminate the state government share of funds allocated to the states beginning with fiscal year 1980.
March 7, 1979	The Joint Economic Committee recommended that "Congress should evaluate the General Revenue Sharing program and should consider the possibility of reducing or eliminating the portion going to the states."
April 13, 1979	The House Budget Committee approved a resolution that eliminated the state share of federal revenue sharing ($2.3 billion) from the 1980 budget.
May 7, 1979	House approved its Budget Committee's resolution after rejecting the Conable substitute amendment to restore the 1980 fiscal year funds for the states by a vote of 195 to 190. The House also rejected, by a vote of 147 to 237, the Snowe Amendment to provide a 5% across-the-board cut ($2.3 billion) in certain categorical aids to provide the funds required to offset the retention of state governments in the General Revenue Sharing program.
May 18, 1979	House and Senate Budget conferees agree on 1980 budget resolution that would permit the financing of the proposed targeted assistance program from a part of the state revenue sharing entitlement.
June 28, 1979	House passed the fiscal 1980 appropriations bill that included $2.3 billion for state revenue sharing after rejecting two attempts to limit the states' entitlement to $1.6 billion.
July 24, 1979	Senate Appropriations Committee recommended a $684 million reduction in the state revenue sharing entitlement for fiscal 1980.
July 27, 1979	Senate rejects, by a vote of 59 to 31, the Appropriations Committee proposal to cut the state revenue sharing entitlement by $684 million for the fiscal year 1980.
August 2, 1979	Senate Budget Committee resolution calls for a 60% reduction ($1.4 billion) in revenue sharing grants for states beginning in fiscal year 1981.

ment: "Mr. President, I wish to point out that two programs which I sponsored and I have strongly supported over the years would be funded in this bill at levels which I consider undesirably low. The first of these programs is the General Revenue Sharing program. . . . In my mind such a reduction ($684 million) amounts to reneging on a federal commitment to the states. The second program is the EPA waste-water treatment construction grant program. . . . As I have said time and time again, bringing federal spending under control and balancing the federal budget will not be easy. It is not simply a matter of cutting out a few programs that are clearly unnecessary or wasteful. It means making deep and painful sacrifices in each and every area of federal activity. Each of us here must accept such sacrifices in programs which we hold near and dear, or we will never get this budget under control."

State Fiscal Ease. The reported state surpluses and instances of state tax reduction provide heavy ammunition for those who want to reduce federal revenue sharing payments to states.

Senator Lloyd Bentsen (TX) put the issue this way: "Nineteen states cut taxes since January 1978. That is great fun for the Governors because they had surpluses. As of March of this year the cumulative state surplus was $2.6 billion. It makes little sense for the federal government to worsen its deficit position by paying billions of dollars in revenue sharing funds to states that are cutting taxes and running large surpluses. The $684 million reduction (proposed by the Senate Appropriations Subcommittee in July) would be a constructive step toward eliminating this inequity."

In an earlier debate in the House on a similar issue, **Representative David R. Obey** (WI) described the paradox of state tax reduction and federal deficits more starkly: "We heard all this talk about how only three or four states have half the surplus. It is a funny thing, I never hear my state listed in those three or four states. My state passed out over $900 million in tax relief. I am not having any income tax withheld from my check this month or next month because my state was able to abolish all income taxes for two months. They did that in part because Uncle Sugar sits out here borrowing $2.5 billion to send back to the states; only, we have to pay in interest over $200 million to do it. That is just nuts."

The Balanced Budget Boomerang. Former Governor of Nebraska, **Senator John J. Exon** identifies yet another source of Congressional opposition to continued full state participation in federal General Revenue Sharing: "It is naturally of great concern to many of us when a large majority of the states have written us saying, 'We want you to balance the federal budget.' Yet, it is the same Governors and the same state legislatures which appeal to us time and time again for more and more money from the Federal Treasury which comes, of course, from federal taxpayers."

The Congressional debate frequently dealt with the pressing need to come to grips with inflation. Again, **Sen. Cranston** identified the issue in his remarks: "The states have been piggy-backing on the federal deficit long enough. The Federal Treasury has been borrowing money and deepening the federal deficit year after year while cash piles up in state

Philosophical Objections. The attack on state revenue sharing entitlements goes well beyond the issue of the shifting fiscal fortunes of the federal and state governments. It includes the traditional philosophical arguments against the General Revenue Sharing concept.

Former Governor of Oregon, **Senator Mark O. Hatfield** has raised both the fiscal accountability and dependency issues: "I must say I have very strong philosophical viewpoints that when we separate tax collecting from the spending responsibilities and authorities, we have not strengthened federalism, but we have weakened federalism, by making Governors and local governments more dependent on central government rather than less dependent."

Senator William Proxmire (WI) also has come down hard on the accountability issue: "What spending, then, should be cut? It is hard to find a place more logical to consider reductions than revenue sharing. I say that for many reasons: First, because this is money that does not require accountability. . . . In the revenue sharing area, nobody can say that they go to the needy, nobody can say that they go to a specific useful purpose, because nobody knows where they go. They cannot tell us."

The notion that the states have an inferior tax position has been challenged by **Senator Alan D. Cranston** (CA): "Unlike local governments, the states have full taxing powers. Their sources of revenue are many. Their needs can be met in ways far more equitable than by increasing property taxes—the primary source of local government revenue."

> **"I must say I have very strong philosophical viewpoints that when we separate tax collecting from the spending responsibilities and authorities, we have not strengthened federalism, but we have weakened federalism by making governors and local governments more dependent on central government rather than less dependent."**
>
> Senator Hatfield (OR)

treasuries. Congress is not helping the states when it increases the deficit. The state governments are not immune from inflation. To the extent that an unbalanced budget contributes to inflation, it also contributes to a long-range worsening of state finances. The effort to balance the federal budget is forcing those who are best able to sustain the necessary cuts in federal funds to do so. This must include the state governments."

The State Defense

Revenue sharing's friends respond to the proposed cut in the state entitlement with forceful support for the program in general and state participation in particular.

State Surplus Overstated. In addition to pointing out differences in state and federal budget accounting, the supporters of continued state eligibility for revenue sharing claim that the importance of state surpluses is overstated. **Senator Jacob K. Javits** (NY) presented statistical evidence (*Table 2*) and argumentation: "First, states do not have budget deficits because their constitutions generally prohibit such financing. Second, because of these constitutional restrictions, states are required to keep some cushion against cyclically declining revenues so that mandated expenditures do not force their treasuries into illegal deficit spending. The size of that surplus is crucial to the judgment financial interests make in underwriting state obligations. And the measure of a 'solid' surplus is better than a 5% surplus, according to Standard & Poor, the nationally recognized bond rating service. Mr. President, only 15 states have such a surplus—and all but two are major energy and/or food producers, so their revenues may be expected to have risen with the skyrocketing inflation in these basic commodities."

Table 2

1979 "Surplus" Balance as a Percent of Expenditures

0 to 1%	1.1% to 3%	3.1% to 5%	Over 5%
Alabama	Arizona	California	Alaska
Arkansas	Illinois	Colorado	Indiana
Connecticut	Kentucky	Delaware	Iowa
Florida	Massachusett	Georgia	Kansas
Hawaii	Rhode Island	Maine	Maryland
Idaho	Utah	Montana	Mississippi
Louisiana	Wisconsin	Nebraska	Missouri
Michigan		Ohio	New Hampshire
Minnesota		West Virginia	New Mexico
New Jersey			Oregon
New York			South Dakota
North Carolina			Texas
Oklahoma			Washington
Pennsylvania			Wyoming
South Carolina			
Tennessee			
Vermont			
Virginia			

Note: Nevada and North Dakota do not have completed reports.

Source: National Governors' Association, "Understanding the Fiscal Condition of States," Washington, DC, National Governors' Association, 1979.

Reacting to the claim that states that cut taxes no longer need federal revenue sharing dollars, **Senator Daniel P. Moynihan** (NY) highlighted the problem that leads to tax cuts in New York and other states: "The justification for the committee's action is the tax reductions enacted in 19 states since January 1978, and the budget surpluses that some states are alleged to have. However, for many states, including my own, whose tax rates are among the highest in the Nation and which rates inhibit local economic growth and development, such tax cuts were long overdue."

Revenue Sharing—The Wrong Economy Target. House and Senate defenders of revenue sharing repeatedly point out that Congress is sending the wrong program to the economy chopping block. **Representative William Carney** (NY) advanced this argument: "Further, I am concerned that in attacking revenue sharing, we are going after the wrong target. I believe that we should look to make cuts in categorical grant programs which are now almost 500 in number. These programs are much more costly to administer and involve a tremendous amount of red tape. In addition, continued growth of these programs has served to expand the role of Washington bureaucrats and their burdensome regulations in local affairs. It is highly ironic that in our efforts to balance the budget, the Budget Committee chose to pick on the one federal program which works the best. Adoption of the Conable Amendment (to restore 1980 revenue sharing funds to states) is essential if we are to go about balancing the budget in a prudent and orderly fashion. I urge my colleagues to support it."

In an effort to stave off a cutback, the defenders of revenue sharing in the House launched an unsuccessful counterattack on the categorical aid system. **Representative Olympia Snowe (ME)** introduced an amendment to cut nonwelfare categorical programs by $2.3 billion in return for retention of states as GRS participants.

In the Senate, the argument took a slightly different tack. Proponents claimed that revenue sharing works far better and is administered more economically than other forms of federal aid. According to **Senator Daniel P. Moynihan (NY):** ". . . revenue sharing is simple, it is easy to understand, its benefits are conspicuous and direct, and it has created no bureaucracy. There is no bureau of revenue sharing. It is very small. It takes up about 5% of

". . . revenue sharing is simple, it is easy to understand, its benefits are conspicuous and direct, and it has created no bureaucracy. . . . For heaven's sake, let us not wreck one of the really fine pieces of intergovernmental exchange machinery which we have created."

Senator Moynihan (NY)

the time of an assistant secretary of the Treasury, who does it beautifully . . . We do not have that much to show for the 1970s. For heaven's sake, let us not wreck one of the really fine pieces of intergovernmental exchange machinery which we have created."

Decentralization. In an effort to save revenue sharing for the states, its' supporters have harked back to several of the original justifications for enacting the program.

In the House debate, **Representative Barber B. Conable** (NY) touched on the power sharing and decentralization themes: "There are people in this Chamber who want to have the power that goes with the categorical grant program, the centralizing effect of it because it is run out of Washington, and (who) oppose the idea of any degree of decentralization. The idea against revenue sharing has been heard here many times, particularly by members of the Committee on Appropriations and others who have wanted to build legislative monuments to specific categorical purposes. This discretionary money does give a fine opportunity for keeping the solution of problems as close to the people as possible, and I would hate to see us give up that idea."

Senator Russell B. Long (LA) emphasizing that the federal government still dominates the tax field, reminded his colleagues that: "The taxpayers who support the states are the same taxpayers who support the federal government and in view of the fact that the federal government had the right to preempt all of these revenues, we would share some of that with the state governments."

Temporary Reprieve?

While the defenders of the revenue sharing program turned back all attempts to eliminate or reduce the state government revenue sharing entitlement for the 1980 fiscal year, they can take only small comfort from this victory. Several of the most outspoken critics of the program cited the need to honor a Congressional commitment as their justification for opposing, albeit reluctantly, any revenue sharing cutback for the 1980 fiscal year. For example, **Senator Adlai E. Stevenson** (IL) concluded: "Mr. President, I continue to oppose participation by the states in revenue sharing, and I intend to vote accordingly when the authorization for revenue sharing expires at the end of fiscal year 1980. I see no justification to increase the federal budget deficit in order to contribute to state budget surpluses. However, I do not favor reducing state revenue sharing funds now. To make a revenue sharing cut now would damage states which have relied in good faith on receipt of those funds during fiscal year 1980."

Similarly, **Representative Jack Brooks** (TX) stressed the need for Congress to honor its commitment to the states: "I did not support revenue sharing when it passed, and I did not support the states getting a single dollar of this money. I made an all-out effort in this Congress to make the revenue sharing program subject to appropriations. Unfortunately, I was soundly defeated, and the Congress, in its then wisdom, so-called, overwhelmingly chose to make this an entitlement program. That program still has more than a year to run. I hope the Congress in its wisdom will refuse to extend revenue sharing when it expires on September 30, 1980. But until then I believe we should stand by the action that we took, wrongheaded as it was, and not try to take back the money that we promised to the states."

TWO UNEXAMINED ISSUES

Although the Congressional debates highlighted most of the major arguments that can be anticipated in the forthcoming controversy over renewing federal revenue sharing, they largely ignored two critical questions:

- ☐ What is the role of the states in our federal system?
- ☐ What should be the characteristics of a high quality federal aid system?

Consideration of these two issues produces strong support for continued inclusion of state governments in the General Revenue Sharing program.

The Pivotal Role of the States

The recent revenue sharing debates largely ignored the pivotal position states occupy in the American federal system. State constitutions and statutes allocate taxing powers and spending responsibilities between state and local governments, delineate func-

"There are people in this Chamber who want to have the power that goes with the categorical grant program, the centralizing effect of it because it is run out of Washington, and (who) oppose the idea of any degree of decentralization."

Representative Conable (NY)

tional responsibilities, and prescribe requirements and set guidelines pertaining to local employees, elections, and boundaries. In short, state government decisions determine the character of local governments.

Moreover, the states are gradually taking over the fiscal high ground once occupied by local government. As late as 1959, 20 state governments raised less than half of state and local tax revenue. By 1977, the latest data indicate only five states where local tax revenue outstrips state tax revenue. *Table 3.*

Table 3

State Share of Total State-Local Tax Revenue (Frequency Distribution of States)

State Share	1977	1975	1971	1967	1963	1959
Less than 40%	1	1	0	3	3	4
40 to 50	4	6	15	11	16	16
50 to 60	17	17	13	17	15	14
60 to 70	17	15	11	9	10	8
Over 70	11	11	11	10	6	8
U.S. Average Percentage	57.5%	56.7%	54.1%	52.1%	49.9%	48.9%

Source: ACIR staff calculations.

State governments have also improved the equity of the state-local tax structure. Twenty-nine states now partially shield homeowners from property tax overload situations through state-financed circuit breakers. More than half of the sales tax states now remove much of the regressive aspect of the sales tax with exemptions for food and drug sales or equivalent income tax credits.

The new fiscal strength of the states is largely traceable to courageous tax action by Governors and state legislators in the mid-1960s and early 70s. In 1960, only 19 states made use of both broad-based personal income and retail sales taxes. Today, 37 states have this type of balanced revenue system.

Another clear indication of the growing role of the states is to be found on the expenditure side of the fiscal equation. The states have significantly increased their contribution to the "big ticket" expenditure items—schools and public welfare. *Table 4.*

A recent 50-state inquiry by the Advisory Commission on Intergovernmental Relations revealed that states have increased the assistance to distressed urban and rural communities that they were once accused of neglecting:

- ☐ In the northeastern and north-central states, initiatives have been directed to urban areas. Job creation has been emphasized, and capital improvements have been provided to help rebuild central city industrial, residential and commercial sites. Neighborhood assistance has been established and redlining has been made illegal.
- ☐ In the southeastern and south-central states, the emphasis has been on economic and community development in rural areas and small towns.
- ☐ In the western and northern plains, the states have provided assistance to communities undergoing rapid growth, to emphasize planning and proper use of facilities, and to advocate environmental protection and slower growth if they wish.[1]

Because of the states' important legal position and also because of their growing fiscal support of local government, federal policymakers should not take an action that will be interpreted as penalizing the states now that they are assuming a far more important role in our federal system.

Federal Aid Balance

The recent Congressional debates also reveal a disquieting lack of agreement as to what should be the essential building blocks of a first-rate federal aid system. The proponents of a revenue sharing cutback emphasized the lack of accountability of unrestricted aid while completely ignoring its virtues of flexibility and fiscal equalization. By the same token, the defenders of revenue sharing launched a counterattack on the narrow categorical aid system. They depicted the 492 programs as classic examples of narrow special interests and bureaucracy run amuck. There was scant recognition by them that any of these 492 programs promoted a specific national interest.

This bitter contest is all the more disquieting because it represents lack of awareness of, and lack of

[1]Advisory Commission on Intergovernmental Relations, *State Community Assistance Initiatives: Innovations of the Late 70s*, M-116, Washington, DC, U.S. Government Printing Office, May 1979.

Table 4

State Share of State-Local Expenditure From Own Funds

Function	Fiscal Years 1977	1966	1957
Total General Expenditure[1]	55.5%	47.8%	46.8%
Selected Functions:			
Local Schools	47.5	42.5	41.2
Public Welfare	78.9	75.7	71.8
Health and Hospitals	52.3	51.0	51.3

[1]Includes functions not shown separately.
Source: ACIR staff calculations.

support for, the idea that a well balanced federal aid system must contain three distinct elements:

- ☐ a reformed system of categorical grants-in-aid to stimulate and support programs in specific areas of national interest (such as air and water pollution abatement) and to promote experimentation and demonstration where the national interest dictates;
- ☐ block grants, through the consolidation of existing categoricals, to give states and localities greater flexibility in meeting needs in broad functional areas; and
- ☐ general support payments (revenue sharing on a per capita basis, adjusted for variations in tax effort) to allow states and localities to devise their own programs and set their own priorities to help solve their own unique and most crucial problems.

In the early 1970s Congress began to develop this tripartite approach in our federal aid system. The revenue sharing program came on line in 1972 and several broad new block grant programs were enacted soon after.

Now our federal aid system is once again experiencing "a hardening of the categories." Congress is progressively reducing the flexibility of the block grant programs and, with each passing year, inflation is gnawing away at the revenue sharing program. *Tables 1* and *5*.

Table 5

Outlays for Federal Grants

Type of Grant	1972	1975	1977	1979	1980
General Revenue Sharing	—	12.3%	9.9%	8.3%	8.3%
Other General Purpose	1.5	1.8	4.0	2.6	2.3
Broad-Based Grants	8.4	9.3	12.2	13.9	11.3
Categorical Grants	90.1	76.6	73.9	75.2	78.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The Budget for Fiscal Year 1980 Special Analysis, Washington, DC, U.S. Government Printing Office, p. 230.

The combination of no growth in authorizations and the ravages of inflation have also sapped the revenue sharing program of one of its major strengths—its capacity to lessen fiscal disparities among local governments and states. Revenue sharing provides far greater per capita aid to hard pressed central cities than to their more affluent suburban neighbors. *Table 6.* This program also tends to mute fiscal disparities between the "high stress" Frostbelt states and the energy rich states of the southwest and west. The high stress states are characterized by relatively heavy tax and welfare burdens and slow rates of economic growth. They generally receive more revenue sharing assistance than do the low stress states. *Figure 2* and *Appendix Table 1.*

If Congress is to cut back federal aids without losing the advantages of this tripartite system, the federal revenue sharing program should not be singled out as the economy target. Indeed, when designing a federal aid retrenchment policy, Congress should take into account that inflation over the last eight years has cut the revenue sharing program virtually in half.

Table 6

City and Suburb Per Capita General Revenue Sharing Allocations 9th Period

(October 1977-September 1978)

City		Suburb	
Los Angeles	$17.39	Beverly Hills	$ 4.77
Chicago	26.22	Winnetka	10.17
Detroit	29.83	Grosse Point Farms	4.11
Minneapolis	21.57	Edina	4.63
Cleveland	24.32	Beechwood City	4.49
Milwaukee	19.89	Whitefish Bay	4.61

Source: Office of Revenue Sharing, *General Revenue Sharing Entitlements 9th Period*, Washington, DC, U.S. Government Printing Office.

ACIR POSITION

On March 22, 1979, the Advisory Commission on Intergovernmental Relations urged reauthorization of General Revenue Sharing for states as well as for localities. Further, the Commission recommended that this program be protected from slow strangulation by providing that revenue sharing distributions be adjusted upward to compensate for inflation.

Speaking directly to the comparative federal and state fiscal positions, the Commission threw its full support behind continued state participation in the federal General Revenue Sharing program. Six considerations underpinned their position:

- ☐ First, from a fiscal standpoint, states and localities are inextricably tied together. Much of what Hawaii does at the state level New Hampshire does at the local level, which accounts for the fact that state revenues finance about 80% of state-local expenditures in Hawaii and only about 51% in New Hampshire.
- ☐ Second, the exclusion of the states from the General Revenue Sharing program would serve as one more sign that Washington has little interest in strengthening their pivotal role in the federal system.

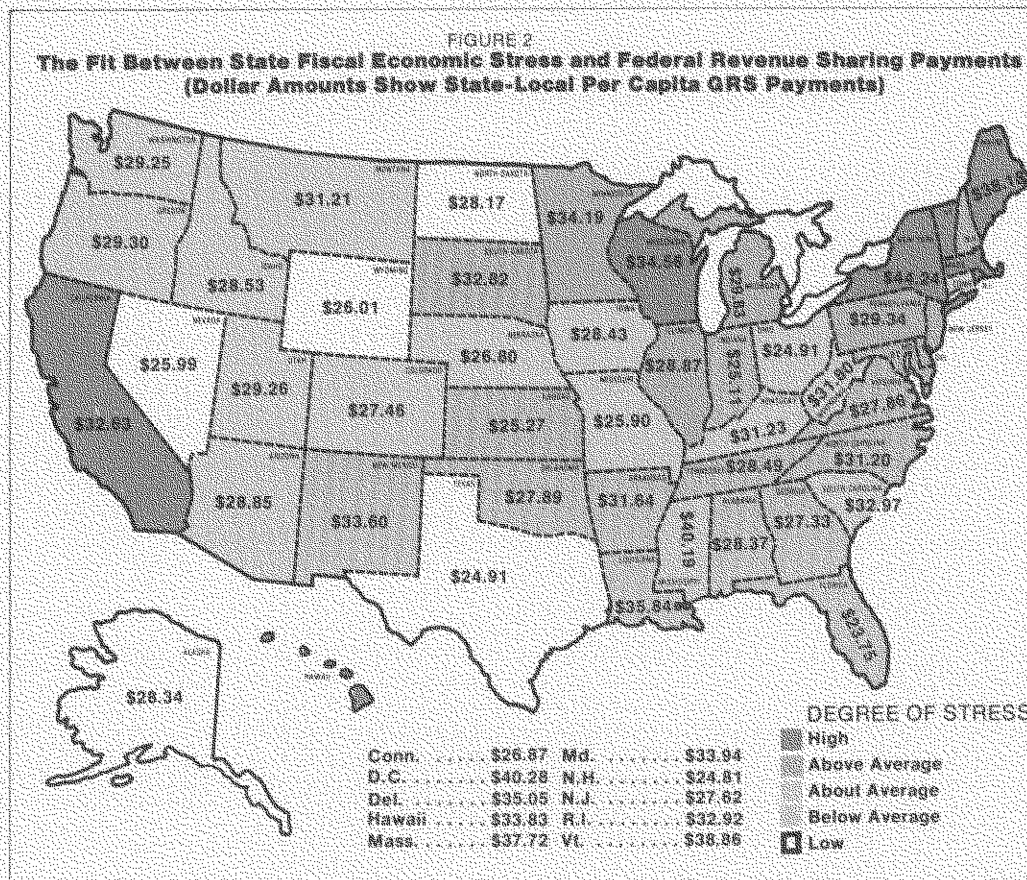


FIGURE 2
The Fit Between State Fiscal Economic Stress and Federal Revenue Sharing Payments (Dollar Amounts Show State-Local Per Capita GRS Payments)

- ☐ Third, a move to disconnect the states from revenue sharing could conceivably result in reducing aid to local governments—the jurisdictions least able to bear the burden. State aid to local governments has risen sharply over the past decade—from $14 billion in 1965 to $61 billion by 1976.
- ☐ Fourth, the state fiscal landscape does not present a uniformly rosy picture. Some states such as New York and Massachusetts are under particularly strong fiscal pressure due to extraordinary tax, public welfare, and urban burdens.
- ☐ Fifth, the states will feel more pressure on the expenditure side because they will have to fill part of the void left by the expected slow-down in federal aid flows to localities.
- ☐ Sixth, as state revenue systems become more elastic—more responsive to economic change—their vulnerability to downturns in the economy becomes increasingly apparent.

In adopting its position on revenue sharing, the Commission leaned hard against the prevailing Washington wind by taking the position that the General Revenue Sharing program for **states** and **localities** should be the last—not the first—federal aid program sent to the austerity chopping block.

Because of its unrestricted character, General Revenue Sharing has a special virtue in the post-Proposition 13 era. Unlike the typical categorical aid that forces state and local governments to race their fiscal motors, revenue sharing dollars can be used to stabilize state and local expenditures.

Will Myers is a senior analyst in ACIR's taxation and finance section; John Shannon is ACIR Assistant Director responsible for that section.

Appendix Table 1

Rating the Fifty State-Local Systems on the Basis of Selected Fiscal and Economic Indicators of Stress

State and Region	Public Welfare Burden Index[1]	Tax Effort Index[2]	Personal Income Growth Index[3]	Per Capita Personal Income 1978 Index[4]	Composite Index[5]
State Median	100.0	100.0	100.0	100.0	100.0
New England					
Connecticut	122.2	94.1	121.2	82.7	101.6
Maine	140.3	124.7	111.0	116.6	119.7
Massachusetts	294.4	130.5	116.9	93.9	131.8
New Hampshire	161.1	80.8	108.2	104.2	104.1
Rhode Island	236.1	112.0	112.7	100.9	121.3
Vermont	113.9	120.7	114.1	113.9	116.0
Mideast					
Delaware	133.3	86.3	112.6	86.7	99.0
District of Columbia	261.1	102.6	105.7	68.1	109.0
Maryland	140.3	109.5	110.1	90.7	107.1
New Jersey	151.4	97.0	115.1	83.9	103.9
New York	287.5	152.6	126.9	91.2	140.0
Pennsylvania	226.4	98.7	108.2	98.2	114.2
Great Lakes					
Illinois	183.3	91.9	108.9	84.9	104.0
Indiana	83.3	81.7	99.2	98.7	92.2
Michigan	222.2	100.9	101.2	88.9	109.5
Ohio	127.8	77.7	108.6	97.2	97.8
Wisconsin	205.6	116.2	103.8	100.0	116.6
Plains					
Iowa	143.1	92.5	93.5	96.4	99.0
Kansas	119.4	85.3	95.6	94.7	94.6
Minnesota	188.9	115.1	99.9	96.7	112.4
Missouri	90.3	82.9	108.7	103.4	97.5
Nebraska	95.8	87.7	107.8	102.7	99.0
North Dakota	98.6	92.8	62.1	101.6	86.8
South Dakota	86.1	90.3	84.6	110.0	94.1
Southeast					
Alabama	77.8	80.6	91.6	117.8	94.8
Arkansas	86.1	78.8	88.8	118.6	94.5
Florida	48.6	80.2	102.3	101.2	90.0
Georgia	70.8	85.3	103.3	111.8	97.2
Kentucky	147.2	84.5	90.9	112.9	101.2
Louisiana	91.7	81.0	88.7	112.6	93.9
Mississippi	97.2	95.5	85.3	124.5	101.3
North Carolina	34.7	86.2	100.0	113.0	93.2
South Carolina	75.0	87.6	94.6	117.8	97.5
Tennessee	87.5	82.2	95.3	114.6	96.4
Virginia	91.7	89.9	97.9	99.6	95.4
West Virginia	87.5	89.7	92.5	115.0	97.9
Southwest					
Arizona	80.6	109.8	101.9	102.9	102.4
New Mexico	48.6	89.0	92.1	114.4	93.5
Oklahoma	86.1	71.8	98.1	108.5	92.1
Texas	69.4	71.6	90.1	98.7	85.1
Rocky Mountain					
Colorado	118.1	96.4	95.8	94.7	97.9
Idaho	76.4	94.8	96.2	110.3	98.0
Montana	75.0	99.4	101.6	107.2	100.0
Utah	63.9	96.3	98.1	112.8	98.6
Wyoming	62.5	81.6	65.9	80.3	74.6
Far West					
California	270.8	120.7	106.0	83.5	120.1
Nevada	91.7	76.5	105.1	81.1	88.0
Oregon	116.7	99.7	92.5	96.8	98.4
Washington	136.1	101.0	94.9	88.8	99.0
Alaska	100.0	100.0	70.4	57.2	81.0
Hawaii	237.5	119.5	121.8	89.7	123.1

Note: The higher the composite index score the greater the fiscal/economic stress.

[1]State-local public welfare expenditure from own funds in 1977 (excluding federal aid) as a percent of state personal income.
[2]State-local tax collections as a percentage of state-local tax capacity. *(Tax Wealth in Fifty States. Table 2.)*
[3]Percentage increase in state per capita personal income between 1970 and 1978. The index numbers, based on each state's increase in relation to the increase for the median state, are inverted to facilitate the inclusion in the composite index. The larger the index number the greater the deficiency in economic growth.
[4]Per capita state personal income in 1978. These index numbers, based on the median state experience, are also inverted (see footnote 3).
[5]Because the welfare index numbers revealed a far greater range than that produced by the other three tests, the welfare scores were only given a weight of 10% while each of the other three index scores were equally weighted at 30%.

Source: ACIR staff compilation based on U.S. Department of Commerce: Bureau of Economic Analysis, *Survey of Current Business*, Washington, DC, U.S. Department of Commerce, various years; Bureau of the Census, Governments Division, various reports; and U.S. Department of Health, Education, and Welfare, the National Institute of Education, *Tax Wealth in Fifty States*, Washington, DC, U.S. Government Printing Office.

Governor Dalton, Speaker McCarthy Named to Advisory Commission

Governor John N. Dalton of Virginia and California Assembly Speaker Leo McCarthy were named to the ACIR in June.

Doris W. Dealaman, Freeholder Director, Somerset County, NJ, was reappointed to the Commission.

Prior to his election as Governor in November 1977, Gov. Dalton served in the Virginia House of Delegates and the state senate, and as the state's lieutenant governor.

Speaker McCarthy has served in the California Assembly for 11 years, as speaker six years. He served as a member of the San Francisco Board of Supervisors for five years.

The two new appointees were selected by President Carter from nominees submitted by the National Governors' Association and the National Conference of State Legislatures.

ACIR Adopts Recommendation On Mortgage Revenue Bonds

Meeting as a committee of the whole on June 8, the ACIR recommended that revenue bonds be used by state and local governments for two public purposes: encouraging homeownership for low and moderate income persons and encouraging economic and community revitalization in distressed cities or rural areas.

It further recommended that the use of these bonds by state and local governments be limited in two ways:

- ☐ The total volume of bonds issued within a state should be held to 5% of the total mortgages for single family housing originated in that state during the previous year.
- ☐ Low and moderate-income homeownership programs should be limited to 120% of local median family income, with appropriate higher income limits available for urban revitalization programs.

The Commission urged that any federal legislation in the area only define general standards for determining eligible programs, allowing all remaining program specifics to be developed by state and local governments.

Upon polling the entire ACIR membership following the meeting, the recommendation was adopted by 12 ayes and nine nays, with one member not voting. The Commission may review this vote and consider the subject further at its next meeting.

The Commission considered the issue of mortgage revenue bonds at the request of the U.S. Treasury Department which estimated that by 1984, these bonds could finance as much as 50% of the single family mortgage market, costing the federal government as much as $11 billion a year.

At the June meeting, former Secretary of the Treasury Michael Blumenthal briefed the Commission on the Administration's position that mortgages can be made available to moderate income families by other more cost-effective approaches which avoid distortions of the tax system, the mortgage credit system and the tax exempt bond market. Secretary Blumenthal said he favored a tax credit or direct subsidy over mortgage revenue bonds.

ACIR's staff study highlighted for the Commission the impacts of mortgage revenue bonds on municipal finance, housing and urban policies, and intergovernmental fiscal issues such as equity and accountability.

In another action, the Commission concluded its study of regional growth and development by noting that state-local taxation was not a major factor in interregional decisions to relocate and establish a business.

"A natural limit inhibits states from going too far in the use of tax differentials or tax and fiscal concessions," said the Commission report. "The inhibitor is the lurking suspicion that the state might be foregoing business tax revenue or making an expenditure on behalf of business that is unnecessary to get the business to locate or expand in the state. . . . Its existence along with the muting effects of the federal income tax go a long way toward eliminating the threat of adverse consequences from tax-based competition for industry."

The Commission adopted three recommendations of a special committee established to review ACIR's work program, budget, and staffing, chaired by Vice Chair Lynn Cutler. They were: there is no need to change ACIR's membership structure at the present time; the ACIR enabling legislation should be amended to provide that a quorum be declared when a majority of appointed members of the Commission are present; and the compensation schedule for consultants should be raised. The Commission also adopted a statement of ACIR operating principles and practices developed for, and reviewed by, the special committee.

The Commission also reviewed a staff report describing and analyzing the fiscal similarities and dissimilarities among four federal systems (Australia, Canada, United States, and West Germany). The ACIR analysis was requested by the Congress to determine how other federal systems face and deal with issues of fiscal federalism that are of concern and interest to the United States.

When compared to the fiscal arrangements of the other major federations, the report noted that the United States is unique in at least three major aspects:

- ☐ Local governments play a more important role in the financing and in the delivery of public services.
- ☐ Narrow, categorical grants are used to a far greater extent to transfer funds from the federal level to states and localities.
- ☐ The magnitude of direct federal grants to localities have no parallel in the other federations.

A summary volume and separate descriptions of the four systems will be published later this year.

The Commission also requested further staff study of two specific methods to achieve greater fiscal restraint at the federal level—statutes setting expenditure limits

and statutes requiring a balanced federal budget.

The fall meeting of the ACIR will be held October 4-5 in Washington.

ACIR Chairman, Members Testify on Sunset, Mortgage Revenue Bonds, GRS

ACIR Chairman Abraham D. Beame, Vice Chair Lynn Cutler, and Mayor Richard Carver recently testified on behalf of the Commission before Congressional committees on sunset, General Revenue Sharing, and mortgage revenue bonds.

On June 14, Chairman Beame, testifying before the Senate Governmental Affairs Committee, urged passage of S. 2, the "Sunset Act of 1979," as a way to help bring the "overloaded federal grant system" under control.

The measure "would help greatly to weed out inactive, inappropriate, ineffective, and duplicative programs as well as to identify those which are managerially, programmatically, and fiscally sound," he said.

While noting that the experience of the states with the sunet process has been mixed, Beame said, "there is good reason to believe that sunset is a viable process when carefully designed and properly implemented."

While ACIR first endorsed periodic review of federal aid programs as early as 1961, it specifically endorsed the concept of sunset legislation in 1977 as part of its major examination of the intergovernmental grant system.

(Further information concerning consideration of sunset at the federal level and activity in the states can be found in "Intergovernmental Focus" on *Page 5*.)

The currently controversial issue of mortgage revenue bonds was the subject of testimony July 18 by Mayor Richard Carver of Peoria, IL, before the Senate Intergovernmental Relations Subcommittee. Testifying for both the ACIR and the U.S. Conference of Mayors, Mayor Carver noted that both organizations feel that housing bonds are "an appropriate tool of state and local governments to encourage homeownership for low and moderate income persons and to revitalize distressed areas."

Both organizations realize the need for certain constraints on issuance of these bonds, he said. ACIR has called for use of bonds to be limited to those with incomes at or below 120% of local median family income and for a cap on the volume of issuances within a state.

In another hearing before the Senate Intergovernmental Relations Subcommittee July 24, Chairman Beame and Vice Chair Lynn Cutler, county supervisor of Black Hawk County, IA, outlined the Commission's strong support for renewal of the General Revenue Sharing program, due to expire in October 1980.

Chairman Beame spoke to the current controversy concerning the state share of revenue sharing. He said continuation of the state share can be supported by five facts and considerations:

- ☐ The state fiscal landscape does not present a uniformly rosy picture: While some states do have surpluses; others, particularly those in the Northeast and Midwest, are under strong fiscal pressure.
- ☐ Those states that have provided substantial recent tax cuts have done so frequently in the interest of their continued economic health including retention of existing manufacturing firms and attraction of new industry.
- ☐ Any elimination of the state share of federal revenue sharing would probably result in a reduction of state aid to local governments—the jurisdictions least able to bear the burden.
- ☐ The expected slowdown in federal aid flows to localities will intensify pressure on the states to fill the voids in local budgets.
- ☐ As state revenue systems become stronger and more elastic—more responsive to economic change—they also become increasingly vulnerable to downturns in the economy.

"If the Congress cuts the states out of General Revenue Sharing," said Beame, "it will signify that one of the recognized strengths of federalism, namely wide diversity among states and localities that makes possible innovative and locally well adapted approaches to perennial problems of governance, no longer enjoys a high national priority."

Chairman Beame also urged the Senate to "maintain the purchasing power of the General Revenue Sharing dollar," noting that the real level of assistance provided in the General Revenue Sharing program has fallen drastically as a result of the interaction of inflation and the fixed authorization for the program.

"The Commission finds this situation incongruous given the strong justification for the program," Beame said. "Indeed, among federal grant programs, General Revenue Sharing has been singled out by the Commission as the one program that deserves 'save harmless' treatment."

Vice Chair Cutler too urged state retention in the program and noted the importance of revenue sharing to governments at both state and local levels. "General Revenue Sharing has returned to the local level, with a minimum of paperwork, the opportunity to use federal dollars to meet local need," she said. "Thousands of small cities and counties, many of which receive no other form of federal assistance, have been able to provide (with the help of Congress) a share of the pie to their residents."

Cigarette Bootlegging Law Results in Arrests, Federal-State Cooperation

On November 2, 1978, President Carter signed Public Law 95-575, a measure designed to control the interstate trafficking in contraband cigarettes. This action culminated a lengthy legislative process which implemented the ACIR recommendation that "the Congress should give early and favorable consideration to legislation prohibiting the transportation of contraband cigarettes in interstate commerce."

Responsibility for implementation of P.L. 95-575 was given to the Bureau of Alcohol, Tobacco and Firearms (ATF) within the Department of Treasury. In the last ten months, ATF, working in cooperation with state crime control authorities, has made significant progress toward controlling the illegal cigarette sale activity.

The bureau's actions have focused in part on the training of federal and state contraband control agents and the investigation and arrest of the cigarette bootleggers. More than 210 federal and 40 state agents have now undergone training in organized crime/cigarette smuggling control techniques. Additional training sessions are planned for state enforcement agents in the coming months.

Federal-state cooperation has been enhanced as well by the close working relationship ATF has with groups such as the National Tobacco Tax Association (NTTA) and the Eastern Seaboard Interstate Cigarette Tax Enforcement Group (ESICTEG) and the development of the "split seizure" concept. The split seizure plan allows state enforcement officials to seize contraband cigarettes when working with ATF. Under this policy the states can then sell the confiscated cigarettes in order to recoup a portion of the lost cigarette tax revenues.

The cooperative efforts already have resulted in a number of enforcement actions. In the first six months of the program, 203 criminal investigations were initiated, eight criminal cases involving 14 defendants were completed, and over 18,000 cartons of contraband cigarettes were seized. All but one of the eight cases involved both federal and state enforcement agency actions.

ACIR/NAPA Develop Indicators of State Efforts to Aid Localities

ACIR has joined with the National Academy of Public Administration (NAPA) to develop summary information on state aid to distressed communities.

The three-month project will attempt to develop matrix indicators of state performance in helping needy communities in such areas as fiscal reform, industrial development, and housing. A panel of state and local officials and interested academics is helping the ACIR/NAPA research team develop the indicators.

The research is being conducted in response to the heightened public interest in state-local assistance activities which followed the publication of ACIR's recent report, **State Community Assistance Initiatives**. The results should help policymakers and the public readily comprehend the states' efforts on behalf of hard-pressed urban and rural governments.

The new project is being supported by the U.S. Department of Housing and Urban Development.

ACIR Poll Reveals Change in Public Perception of Washington

ACIR's 1979 poll of governments and taxes indicates that the public perception of the federal government—and the taxes it levies—has changed over the past year.

For the first time since 1972, when ACIR began its annual polling, the federal government trailed local government on the question, "From which level of government do you get the most for your money?"

Local government got the highest marks on this question—with 33% of the respondents citing that level as giving them the most for their money. The federal government was named by 29%—a considerable drop from the 35% naming it as best in 1978. Only in 1974 had the federal government dropped so low in responses to this question. In that year, it also registered 29%.

Twenty-two percent named states—up slightly from the 20% citing states in the 1978 survey.

There was a regional pattern evident in responses to this question. The northeast tended to back the federal government most heavily (38% naming the federal government), with the north central and west citing local governments (40% for both). State government enjoyed more support than the federal government in the west.

To the question, "Which do you think is the worst tax—that is, the least fair?," the federal income tax was cited by 37% of the respondents—up from 30% the previous year. Some 27% cited the property tax, 15% the sales tax, and 8% the state income tax. In 1978, 32% named the property tax as "the worst;" 11% cited the state income tax, 18% the state sales tax.

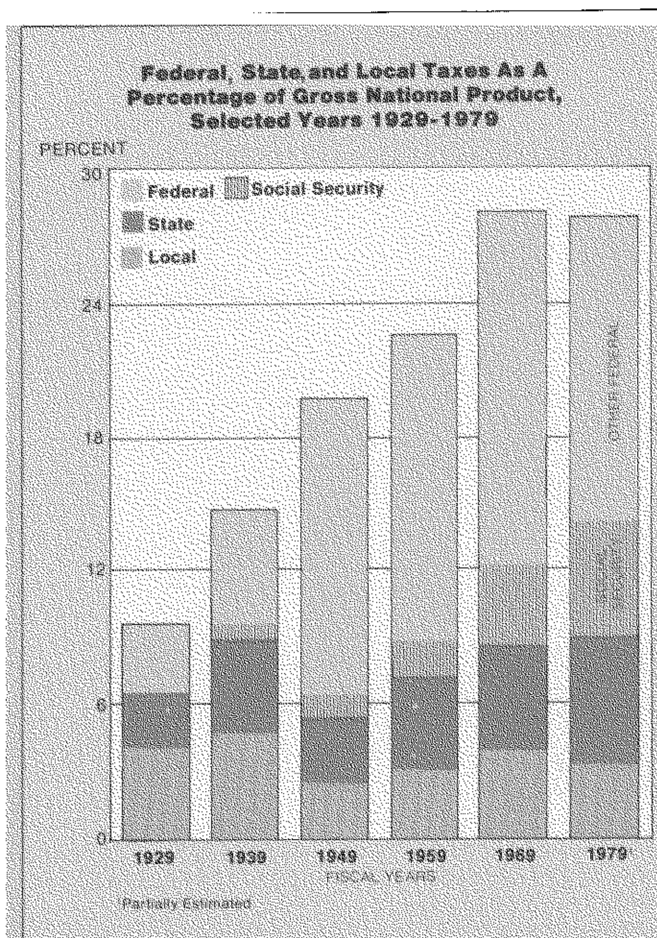
Possible explanations for the relative rise in the unpopularity of the income tax and rather dramatic decline in antiproperty tax attitudes include:

- ☐ The Proposition 13 explosion in the west reduced the pent-up antiproperty tax feeling in that part of the country.
- ☐ Growth in local property tax collections has slowed due both to (a) more conservative spending policies at the local level, and (b) limitations on local tax and spending authority in several states.
- ☐ Many state legislatures have enacted new property tax relief measures and/or expanded old programs.
- ☐ Individual income tax liabilities continue to grow as inflation automatically pushes taxpayers into higher income tax brackets.

Responses to other questions revealed:

- ☐ When asked to choose among options after considering all government services on one hand and taxes on the other, 85% of the respondents wanted to either decrease services and taxes or keep them where they are.
- ☐ General revenue sharing continues to enjoy the support of a majority (51%) of the American public but a larger percentage of respondents than in previous polls oppose the concept (30%).
- ☐ The American public remains about equally divided on whether there should be special federal aid for fiscally distressed central cities: 44% favored the idea; 43% opposed it.

A Fiscal Note



Federal, State, and Local Taxes, as a Percentage Of Gross National Product, Selected Years 1929-1979

Fiscal Years	Total Public Sector	Total	Federal Other than Social Security	Social Security	State	Local
1929[1,2]	9.4	3.3	3.3	0	2.0	4.2
1939[1]	14.6	6.0	5.4	0.6	3.5	5.1
1949	19.9	14.3	13.6	0.7	2.8	2.8
1959	22.9	16.0	14.3	1.8	3.4	3.5
1969	28.4	19.9	16.1	3.7	4.6	3.8
1974	28.0	18.4	13.5	4.9	5.5	4.2
1975	27.9	18.2	13.0	5.2	5.5	4.2
1976	27.0	17.3	12.4	4.9	5.5	4.2
1977	28.3	18.4	13.3	5.0	5.7	4.2
1978P	28.2	18.5	13.4	5.1	5.7	4.0
1979[1]	28.1	18.9	13.6	5.2	5.6	3.6

P = Preliminary. [1]Partially estimated. [2]Based on calendar year GNP.

Source: ACIR staff computations based on *Economic Report of the President*, Washington, DC, U.S. Government Printing Office, January 1979; U.S. Department of Commerce—U.S. Bureau of the Census, Governments Division, various reports; Office of Business Economics, *Survey of Current Business*, Washington, DC, U.S. Department of Commerce, various issues; and ACIR staff estimates.

Our Intergovernmental Tax System: Fifty Years of Growth and Change

In sharp contrast to earlier decades, total taxes during the 1970s did not outstrip the growth in the economy (*Figure 1* and *Table 1*). Several federal tax cuts and growing taxpayer resistance to higher state and local taxes are primarily responsible for this "topping off" effect.

Certain long-established tax trends did not change. Local governments continued to fall farther behind in the perennial intergovernmental scramble for taxpayers' dollars. In 1929, the local tax collector dominated the intergovernmental fiscal landscape, accounting for nearly half of all taxes raised. By 1979, the local share of total taxes had dropped to less than 13%.

Social Security taxes have now grown so large—an estimated $120 billion for the fiscal year 1979—that this tax has become a fourth dimension in our intergovernmental tax structure. Millions of taxpayers now pay more in Social Security taxes than they do in federal income taxes. In 1979, Social Security tax receipts will exceed those of all local governments by an estimated $40 billion.

While the states have also increased their tax lead over local governments, their taxes are no longer rising at a faster rate than the growth of the economy. This slowdown can be traced to the virtual elimination of tax increases—a characteristic feature of state tax growth in the 1950s and 60s.

This slowdown in state tax growth is likely to continue. In the last year, six states—Colorado, Arizona, California, Iowa, Minnesota, and Wisconsin—have indexed their personal income tax against inflation. If this indexation movement continues to grow it will remove most of the inflationary wind from the state income tax sails.

The Advisory Commission has urged federal and state policymakers to index the income tax to insure that higher, effective income tax rates are the product of overt legislative action rather than the silent, automatic consequence of inflation.

And Briefly: Books

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

Significant Features of Fiscal Federalism, 1978-79 Edition (M-115).

This report is an update of the 1976-77 edition. It contains 64 tables summarizing federal, state, and local revenues, expenditures, tax burdens, employment, and earnings.

State Community Assistance Initiatives: Innovations of the Late 70s (M-116).

The purpose of this report is to assist policymakers in identifying trends that characterize the states' response to community problems and to facilitate the exchange of information among federal, state, and local officials on innovative techniques in state community assistance programs. The report provides an overview and assessment of states' achievements as well as a state-by-state breakdown of recent community assistance activities. An appendix provides ACIR model legislation dealing with current state-local aid concerns. There are, however, no formal Commission recommendations.

State-Local Finances in Recession and Inflation: An Economic Analysis (A-70).

This is the second Commission report on the relationship between federal fiscal policy and state and local governments. It presents the economic and statistical analysis done as background for the Commission's report on countercyclical aid entitled *Countercyclical Aid and Economic Stabilization* (A-69). The report analyzes two issues: the effects of state-local fiscal behavior on the national economy since World War II and the effects of the business cycle on state and local government fiscal behavior. Additional statistics are provided in tables and conclusions are summarized at the end of each chapter.

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

The Municipal Year Book, 1979, International City Management Association, 1140 Connecticut Avenue, N.W., Washington, DC 20036. $29.50.

Revenue Sharing with the States, Hearing before the Subcommittee on the City of the Committee on Banking, Finance and Urban Affairs of the U.S. House of Representatives, May 3, 1979. Serial No. 96-14. U.S. Government Printing Office, Washington, DC 20402.

New York's Role in the Fiscal Affairs of Its Local Governments—New Directions for an Old Partnership, New York State Legislature Assembly Ways and Means Committee, State Capitol, Albany, NY 12248.

The Model Procurement Code for State and Local Governments, American Bar Association Section of Public Contract Law Model Procurement Code Project, Suite 601, 1700 K St. N.W., Washington, DC 20036.

Public Finance: Intergovernmental Fiscal Relations—A Bibliographic Overview, by Frank J. Coppa, Vance Bibliographies, P.O. Box 229, Monticello, NY 61856. $1.50.

State Government Reorganization: A Bibliography, by Thad L. Beyle and Edward W. Crowe, Council of State Governments, Iron Works Pike, Lexington, KY 40578. $15.

Selected Bibliography on State Government: 1973-1978, Council of State Governments, Iron Works Pike, Lexington, KY 40578. $12.

The Search for Equity in School Finance, 3 vols., Rand Corporation, 1700 Main Street, Santa Monica, CA 90406.

National Transportation Policies Through the Year 2000: Final Report, by the National Transportation Policy Study Commission, U.S. Government Printing Office, Washington, DC 20402.

Perspectives on Intergovernmental Policy and Fiscal Relations, U.S. General Accounting Office, Washington, DC 20548.

Is the Urban Crisis Over?, U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal and Intergovernmental Policy, U.S. Government Printing Office, Washington, DC 20402.

Regional Council Representation in Voting, National Association of Regional Councils, 1700 K Street, N.W., Washington, DC 20006. $10.

Income Tax Indexing: Recent State Laws, Research Report No. 80, Federation of Tax Administrators, 444 North Capitol Street, N.W., Washington, DC 20001. $5.

A Value-Added Tax for the United States? Selected Views, Tax Foundation, Inc., 1875 Connecticut Avenue, N.W., Washington, DC 20009. $2.

Setting National Priorities: The 1980 Budget, Joseph A. Pechman, ed., The Brookings Institution, 1775 Massachussetts Avenue, N.W., Washington, DC 20036. $4.95 paper.

Municipal Finance Statistics, 1978, The Bond Buyer, 1 State Street Plaza, New York, NY 10004. $12 paper.

Federalism: Recent Developments, Future Directions, by Charles S. Rhyne, National Institute of Municipal Law Officers, 839 17th Street, N.W., Washington, DC 20006. $10.

Experiments in Metropolitan Government, by James F. Horan and G. Thomas Taylor, Jr., Praeger Special Studies, 200 Park Avenue, New York, NY 10017. $22.50.

The Changing Structure of the City: What Happened to the Urban Crisis, Gary A. Tobin, ed., Sage Publications, 275 South Beverly Drive, Beverly Hills, CA 90212. $8.95 paper.

The Federal Interest in Financing Schooling, Michael Timpane, ed., Ballinger Publishing Co., 17 Dunster Street, Harvard Square, Cambridge, MA 02138. $17.

Current Members of the Advisory Commission on Intergovernmental Relations
August 15, 1979

Private Citizens:
Abraham D. Beame, *Chairman, New York, N.Y.*
Bill King, *Huntsville, Ala.*
Vacancy

Members of the U.S. Senate:
Lawton Chiles, *Florida*
William V. Roth, Jr., *Delaware*
James R. Sasser, *Tennessee*

Members of the U.S. House of Representatives:
Clarence J. Brown, Jr., *Ohio*
L. H. Fountain, *North Carolina*
Charles B. Rangel, *New York*

Officers of the Executive Branch, Federal Government:
Juanita M. Kreps, *Secretary, Department of Commerce*
James T. McIntyre, Jr., *Director, Office of Management and Budget*
Vacancy

Governors:
Bruce Babbitt, *Arizona*
John Dalton, *Virginia*
Richard W. Riley, *South Carolina*
Richard A. Snelling, *Vermont*

Mayors:
Thomas Bradley, *Los Angeles, Cal.*
Richard E. Carver, *Peoria, Ill.*
Tom Moody, *Columbus, Ohio*
John P. Rousakis, *Savannah, Ga.*

Members of State Legislatures:
Fred E. Anderson, *Senator, Colo.*
Leo McCarthy, *Speaker, California Assembly*
Vacancy

Elected County Officials:
William O. Beach, *Montgomery County, Tenn.*
Lynn G. Cutler, *Black Hawk County, Iowa*
Doris W. Dealaman *Somerset County, N.J.*

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 March 20, 1982.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

POSTAGE AND FEES PAID
ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

3RD CLASS BLK. RT.