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ADDRESS BY THE COMPTROLLER GENERAL OF THE UNITED STATES,  
ELMER B. STAATS, TO THE NATIONAL CONFERENCE ON  
AMERICAN FEDERALISM IN ACTION  
WASHINGTON, D.C., FEBRUARY 21, 1975

"THE NEW MIX OF FEDERAL ASSISTANCE: CATEGORICAL GRANTS, BLOCK  
GRANTS, AND GENERAL REVENUE SHARING--DIFFERENT APPROACHES  
WITH DIFFERENT MANAGEMENT AND MONEY IMPLICATIONS"

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It is no news to you that Federal financial assistance to State  
and local government is almost as old as the Nation itself. But in  
our early history--even proportionately to the minuscule total expendi-  
tures of Government--such assistance didn't amount to much. That did  
not keep it from being controversial then, even as it is today. State  
and local governments wanted to stay small, and they especially wanted  
to keep out of the clutches of the Washington bureaucracy.

The great depression of the 1930s changed all that. At least some  
of you here are old enough to remember that period firsthand. We had  
WPA, FERA, NYA and a long list of other agencies set up to help States  
and localities with their economic recovery efforts.

Just 10 years ago Federal aid added up to only about \$12 billion--  
compared to more than \$55 billion projected for 1976. Percentagewise,  
its portion of the total budget increased during this period from about  
10 percent to 16 percent--and as a percentage of State and local outlays,  
from approximately 16 percent to 23 percent. Total Federal outlays with-  
in this period have increased only half as fast as Federal aid to State  
and local governments.

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But the overall impact of Federal assistance is obviously greater than the financial figures indicate. Why? Because most of the assistance is conditional, designed

- to produce action in a particular way,
- to divert State and local budgetary resources to a different set of priorities--primarily to meet national versus State or local objectives, and
- to stimulate additional taxes or borrowing efforts.

In recent years, this indirect effect has become particularly important in such areas as health, education, and income security. Ten years ago about 30 percent of Federal aid went for highways; in 1976 only 12 percent is so budgeted.

These totals indicate there is plenty of Federalism in action, and views on the implications for the future of Federalism range from optimism and hopes to predictions of disaster for the Federal system--depending on one's political philosophy or perhaps on how hopeful one may be as to our ability to master some of the problems which have risen to plague us, such as

- excessive administrative requirements;
- inability to respond to changes in State and local priorities;
- inability to delegate decisionmaking to Federal field offices; and
- overlapping sources of funds for the same or closely related purposes--230 in the health field, to mention a dramatic example.

## IMPROVEMENTS IN DELIVERY OF FEDERAL ASSISTANCE

The substantial growth in the number and variety of Federal assistance programs has been accompanied by increasing criticism and demands for reform, even from supporters of expanded assistance to State and local governments. Recognition of the need for reform of the delivery system of Federal assistance is not a recent phenomenon. Since the mid-1960s numerous attempts have been made by the legislative and executive branches to improve the delivery of assistance to State and local governments. I think it would be helpful to review a few of these efforts.

### INTERGOVERNMENTAL COOPERATION ACT OF 1968

Two major steps were taken pursuant to the requirements of the Intergovernmental Cooperation Act of 1968--the issuance of OMB Circulars A-95 and A-98. The broad purpose of Circular A-95 is to facilitate inter-governmental cooperation by offering State and local governments and others the opportunity to comment on the consistency of proposed projects with State, regional, and local policies, plans, and programs. Circular A-98 (now administered by the Treasury Department) prescribed a standard process and a standard form for providing timely and uniform notification of grant award data to the States.

### JOINT FUNDING SIMPLIFICATION ACT OF 1974

The Joint Funding Simplification Act of 1974 permits the use of simplified and uniform administrative rules and procedures when a project requires assistance from two or more Federal agencies. Prior to enactment

of the legislation, the Integrated Grant Administration Program was conducted on an experimental basis by OMB and GSA to demonstrate the feasibility of joint funding.

COMPREHENSIVE HEALTH PLANNING AND PUBLIC  
HEALTH SERVICES AMENDMENTS OF 1966

The Comprehensive Health Planning and Public Health Services Amendments to the Public Health Service Act established a program to assist States and local communities to produce comprehensive plans for meeting their current and future health needs.

Sixteen existing categorical grants for health services were consolidated into block grants on a formula basis for comprehensive health services and on a discretionary basis for directing funds to areas of greatest need.

COMPREHENSIVE EMPLOYMENT AND  
TRAINING ACT OF 1973

The Comprehensive Employment and Training Act of 1973 replaced the numerous categorical manpower programs that were authorized by the Manpower Development and Training Act of 1962 and the Economic Opportunity Act of 1964 with a new comprehensive manpower program of block grants to State and local governments for planning and operating programs.

Previously, appropriations under these laws supported over a dozen categorical manpower programs, including institutional training, neighborhood youth corps, new careers, operation mainstream, job opportunities in the business sector, and the concentrated employment programs.

HOUSING AND COMMUNITY  
DEVELOPMENT ACT OF 1974

The Housing and Community Development Act of 1974 is still another recent attempt to simplify the delivery of Federal assistance to State

and local governments. It consolidated seven categorical grant programs into a comprehensive block grant program for community development.

This consolidation is expected to reduce paperwork and red tape, expand State and local responsibility, and help assure greater continuity of funding because of the program's 3-year authorization.

#### CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

The Congressional Budget and Impoundment Control Act of 1974, an attempt to improve the congressional budget review and appropriation process, is important and relevant enough to be mentioned here.

Among other things, it provides for establishing and maintaining a standardized data processing and information system for fiscal, budgetary, and program-related data and information to meet the needs of Federal, State, and local governments. It also accepts the principles of multiyear authorization and advance funding which have been needed for many years.

#### FEDERAL ASSISTANCE REVIEW

To streamline and speed up the flow of Federal assistance, the President initiated the Federal assistance review in March 1969 conducted by OMB and 14 major Government departments and agencies. In brief, its purpose was to place greater reliance on State and local governments, move Federal decisionmaking out of Washington, D.C., and reduce red tape. Results of this program to date include

- the establishment of common regional boundaries and locations for the major grantmaking agencies,
- the formal creation of Federal Regional Councils, and

--development of uniform administrative requirements for grants to State and local governments.

PROBLEMS IN DELIVERY OF  
FEDERAL ASSISTANCE

General Accounting Office studies conclude that, despite the actions taken to improve the delivery system, fundamental problems continue. We have barely scratched the surface--there is still a lot to be done to achieve the objectives of the Intergovernmental Cooperation Act.

Federal agencies still insist on the "unique" requirements of individual programs and have a general lack of rapport with State and local officials.

Many other problems are directly attributable to the proliferation of Federal assistance programs and the fragmentation of responsibility among different Federal departments and agencies.

Our conclusion is that the present delivery system

--lacks an adequate means for disseminating grant information needed by State and local governments,

--creates a high degree of funding uncertainty due to late authorizations and appropriations and executive impoundment of appropriated funds,

--fosters complex and varying application and administrative processes, and

--is fragmented with similar programs being administered by different Federal agencies or agency components and with programs too restrictive to meet State and local needs.

State and local governments must devote too much time and effort to simply keep informed of available Federal assistance. In spite of their efforts, available assistance is often learned of too late or offered under time constraints such that State and local governments cannot take advantage of it.

I am aware that these comments may simply repeat these and other criticisms you have heard many times before. Why do the problems persist?

We in the GAO feel that the most important single way to reduce the complexity of the current system is to further consolidate separate programs serving similar objectives into broader purpose programs and to assign programs serving similar goals to the same Federal agency. There are a number of ways of achieving these objectives; one approach would be to enact previously proposed amendments to the Intergovernmental Cooperation Act of 1968 which would establish a mechanism for achieving program consolidation. The proposed amendments would direct the President to periodically examine various assistance programs and recommend to the Congress for approval those program consolidations deemed necessary or desirable.

Perhaps equally important is the need for greater use of multiyear appropriations and forward funding of Federal assistance programs as a means of reducing the present high level of funding uncertainty for grantees as well as the program agency involved.

Thus, we have a mix of methods for providing Federal assistance--categorical grants, block grants, general revenue sharing, and tax expenditures--each of which has played important roles in providing

Federal financial assistance, a pattern developed through an evolutionary and incremental process over nearly two centuries.

#### CATEGORICAL GRANTS

At the risk of oversimplification, we can describe in general terms the process which led to the development of categorical grant programs. The Federal Government, when it moved to legislate on a problem of national concern, had to determine whether the problem was such that it warranted national administration or a cooperative program with State and/or local governments. Categorical grants rest on the concept of dealing with national problems with a maximum involvement of State and local governments.

For a typical categorical grant, however, there is usually strong direct Federal influence on how the solution of the problem is to be approached. The administrative detail involved usually results in higher administrative costs. Reporting, accountability controls, and grant application and approval systems are inevitable if the Federal Government is to be assured that the funds are spent effectively in carrying out the statute involved.

Categorical grants are of limited help in responding to changing needs or different problems since both the grantor and grantee have limited flexibility in directing funds away from the legislatively defined problems for which they were made available. As new problems are perceived, new categorical grants are created, but old grants build a constituency that often keeps them alive even when the need for them may have passed or



have been outweighed by some newer concern. As a result, many similar categorical grants have developed which need to be coordinated. However, their sheer numbers often defy efforts at coordination.

Having offered these criticisms, it is important to emphasize that categorical grants have an important role in the delivery of Federal assistance. They are especially valuable for research and demonstration activities or when the overriding objective is to prescribe a minimum level of services.

#### BLOCK GRANTS

I will now turn to block grants. Interestingly, proposals for block grants can be traced back as far as 1949 when the first Hoover Commission urged that "a system of grants be established based upon broad categories \* \* \* as contrasted with the present system of extreme fragmentation." I am hesitant to speculate as to what the Hoover Commission would say today in the light of what has happened since that time.

Block grants by definition are broad in purpose, focusing on functional areas. For example, before the passage of the Comprehensive Employment Training Act of 1973, which replaced numerous categorical manpower programs with a manpower block grant program, a grantee received funds separately for such purposes as youth employment training and public employment. If the grantee had a greater need for public employment activities than for youth employment training, it nevertheless had to operate with only the funds provided or else supplement these funds with its own resources. Youth employment training funds could not be used in

support of separately prescribed public employment activities. Under the new block grant, a grantee has more flexibility to apply as much of the manpower funds as he feels appropriate to public employment activities.

By our earlier definition, there are currently five block grants, of which only the Partnership for Health Act of 1966 and the Safe Streets Act of 1968 have been in operation for any length of time. Both programs are similar in that most Federal funds flow in a block to the States which, in turn, make funds available to their political subdivisions. However, the two programs arose under different circumstances--the Partnership for Health program resulted from a consolidation of 16 existing categorical grants and the Safe Streets program was enacted in response to a national concern for which no comprehensive Federal assistance program existed.

Two principal considerations gave rise to the creation of block grants: (1) reducing the administrative workload and costs associated with categorical programs and (2) providing recipients with greater flexibility in using available funds. No one really knows whether total administrative costs are reduced under the block grant approach. We plan to study this in the future. The record may possibly show that the administrative burden at the Federal level is shifted from the review of multiple applications and proposals for assistance to the review of operating plans. However, it certainly seems logical that, when separate categorical grants are combined into a single grant, administrative costs should be reduced. The matters of administrative costs and flexibility

in resource allocation also require further study. For example, we have found that some States receiving funds through a block grant often pass the funds on to their political subdivisions on a categorical basis.

The matter of flexibility, a principle characteristic of block grant programs raises the important question--some would say dilemma--of just how far consolidation can be pursued without sacrificing the national objective for which the grant was created. Block grants place a major responsibility on States to

- assume leadership in an area of major concern,
- avoid the temptation of excessive categorization of funds provided to the political subdivisions,
- develop and maintain a harmonious working relationship with the political subdivisions, and
- evaluate the results of the broader program objective.

Along with these responsibilities comes a downward shift in the degree of direct Federal influence over the solution of national problems. To the extent this shift can be accomplished--while at the same time maintaining a delicate balance of national, State, and local concerns--block grants will become increasingly important as a method of providing assistance to State and local governments.

#### GENERAL REVENUE SHARING

General revenue sharing is the most recent approach to assisting State and local governments. The Congress concluded that aid made available under this program should provide recipient governments with broad

flexibility in the use of the funds with only very general guidance from the Federal Government. State and local governments automatically receive revenue sharing funds, whereas they must apply or submit a plan for assistance under categorical or block grants. Revenue sharing funds may be used by a local government for priority expenditures in a number of areas broadly defined by the legislation and by a State government for generally whatever it decides.

General revenue sharing can be best characterized as general fiscal support payments or--perhaps more accurately--as income redistribution payments. I predict that it will be the most controversial, debated, and studied of all Federal assistance programs.

GAO is directed by law to assist in the congressional evaluation of the program by reviewing the activities of the Treasury Department and the use of funds by State and local governments. GAO has issued two reports to Congress on revenue sharing and several other studies are currently underway.

In both reports, our chief concern was the inability to identify what has actually happened as a result of the program. Because of the wide discretion recipients have in using the funds, revenue sharing in its simplest terms represents merely an addition to the total resources available for governmental expenditure. Revenue sharing, aid from other governments, and a government's own resources are used to provide the same services. This creates a situation where funds can be easily displaced or substituted. Thus, there are a variety of effects which are not necessarily reflected by the direct use of the revenue sharing funds. For instance,

- its own funds may be freed to finance other programs  
(new or old),
- it may be able to avoid increasing taxes,
- it may be able to reduce taxes, or
- it may experience a combination of these or other  
consequences.

Because budgetary choices among competing programs and decisions regarding the methods for financing a government's budget are typically based on total resources available to the government, it is extremely difficult, and probably impossible, to objectively identify the effects of revenue sharing. This is a problem for us at the Federal level and also for citizens and State and local officials. The data reported merely portrays activities being directly funded with revenue sharing. To be meaningful, such data should be integrated and related to total expenditures for State and local activities by purpose or function.

In a broader perspective, the development of comparable information on the activities of State and local government would be of great value at the national level, not only in evaluating revenue sharing but also in establishing funding priorities for all Federal financial assistance programs.

At least conceptually- tax expenditures that aid State and local governments are similar to revenue sharing or income redistribution programs in that they do not involve the procedures applying to categorical or block grants. The subject of tax expenditures has received

new interest with the passage of the Congressional Budget and Impoundment Control Act of 1974, which requires the budget to identify tax expenditures and requires the Congress to consider tax expenditures in relationship to total Federal expenditures.

The exclusion of interest on State and local securities from Federal taxable income permits these jurisdictions to borrow at lower rates of interest. In 1976 this will reduce Federal receipts by nearly \$5 billion. Moreover, when individuals are permitted to deduct State and local taxes from their taxable income, the jurisdiction is able to raise a dollar of revenue with less than a dollar net cost to its taxpayer. This is a difficult figure to identify precisely in advance, but it is estimated that it will total about \$16 billion in fiscal year 1976.

#### SUMMARY AND CONCLUSIONS

I can certainly agree with the implications of the title of the subject given me today--that different approaches to Federal assistance involve different management and money implications. Probably more important still is the potential implications for the future of our Federal form of Government. We are undoubtedly going to need all of the present forms of assistance, or at least elements of them. It is not likely that we have seen the end of the growth of Federal assistance. At the risk of being contradicted by all of the papers delivered at this conference, I doubt whether we have fully assessed the dangers which lie ahead--and which are possibly inherent in massive Federal aid--unless we are willing to realize that over a period of time we can, and possibly

already have, radically revised our concept of the relationship of the Federal Government and State and local government. The concept of the Constitution as a living and flexible document is no more sharply illustrated than in the financial relationships of the Federal-State system.

I am not suggesting that this changing relationship is necessarily bad, but we need to understand its potential implications. We need to go back to the hearings which led to the enactment of the Intergovernmental Cooperation Act of 1968, to accept that statute as probably the best starting point available, and to see whether we can build upon it. We particularly need to take seriously the concept in that act of a periodic assessment of both the need and form of various assistance programs.

I am encouraged to note that the Advisory Commission on Intergovernmental Relations recently initiated a broad study to assess the effectiveness of the methods of delivering Federal assistance. More work needs to be done. Efforts at further improvement require the interest and joint participation of policymakers at the Federal, State, and local levels. No one level of Government can do it alone.

Feb 21



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

Mr. William R. MacDougall  
Special Projects Director  
Advisory Commission on Intergovernmental  
Relations  
Washington, D.C. 20575

Dear Bill:

As you requested in your letter of December 12, 1974, enclosed is a copy of the statement I plan to deliver at the National Conference on American Federalism in Action on February 21, 1975.

I appreciate the opportunity to participate and look forward to meeting with you again.

Sincerely yours,

Comptroller General  
of the United States

Enclosure