LOCAL AND STATE FINANCING

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State and local taxes dollarwise rose less rapidly during the second World War than did total national production and incomes. Because of war effort priorities and anticipation of postwar price declines, state and local government services and construction were curtailed or postponed; and surplus revenues accumulated. Surpluses have long since been used, however, to meet accumulated need and expanded current demand for schools, roads, hospitals, and other government services. Since the war taxes have increased both in dollars and relative to gross national production; and debt has mounted.

State and local taxes have increased from about 10.5 billion dollars in 1945 to about 30.5 billion dollars in 1957, and the ratio of taxes to Gross National Product has grown from 4.9 percent in 1945 to 7.0 percent in 1957 (Figures 1 and 2). In 1956 and 1957, dollar increases substantially exceeded those of earlier postwar years. To forestall hasty conclusions, let us note that the ratio of taxes to GNP in 1929 was 6.2 percent, and rose, because of the drop in GNP, to 10.9 percent in 1932. State and local net long-term debt grew from about 14 billions in 1945 to about 47 billions in 1957.

FEDERAL FINANCE RELATIVE TO STATE-LOCAL

During the past thirty years major shifts have occurred in federal finance relative to state and local, primarily as an outgrowth of the second World War and the continuing cold war. Federal taxes in 1957 were about 77 billion dollars, or more than two and a half times the state-local aggregate of approximately 30 billion dollars. In 1929, federal taxes of 3.3 billion dollars were little more than half the 6.4 billion dollars of state-local. All taxes in 1957 were about 25 percent of the GNP, compared with 9.4 percent in 1929, mainly because of the growth of federal collections.

While the rise in federal taxes has many causes, efforts to "provide for the common defense" dominate the scene. In fiscal 1957, approximately four-fifths of federal expenditures were for defense and related outlays, including military services, international affairs and finance,

[1]Successive preliminary drafts of this report were reviewed first by a small committee, and later at the conference by a work group. The committee included Frederick D. Stocker, Farm Taxation and Rural Government Section, USDA; Mable Walker, Tax Institute, Princeton, New Jersey; and Garland P. Wood, Michigan State University. Congressman Byron Johnson of Colorado and until recently of the University of Denver consulted with the committee. The work group included: Herman M. Bowers, S. J. Brannen, Rupert B. Johnston, John W. Mamer, Robert O. Sinclair, Frederick D. Stocker, M. D. Thomas, C. I. Walters, and Garland P. Wood (Chairman).

veterans' services and benefits, and interest on the national debt (incurred largely in wartime).

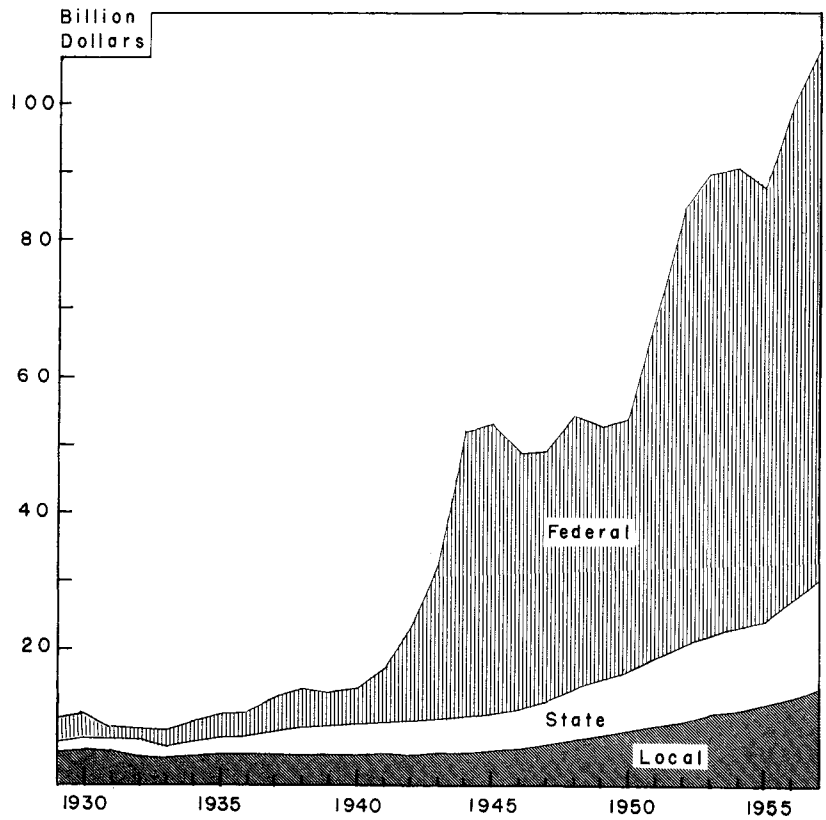

Figure 1. Federal, State, and Local Tax Receipts, United States, 1929-57

The more important of the "civilian" or "internal" expenses include trust fund payments of old age, survivors and disability insurance estimated by the President in this budget presentation at 11.9 billion dollars for fiscal 1960, farm price-support and related programs (4.5 billions), veterans services and benefits if we do not include them under defense (5.1 billions), and flood control, irrigation, navigation, and related activities (1.1 billion).

Over the past few decades, federal conditional grants of financial aid for state and local programs have grown in amount and variety of purposes. The federal Budget Bureau estimated the total required for fiscal 1960 at 6.9 billion dollars of which over 3 billions was to be for

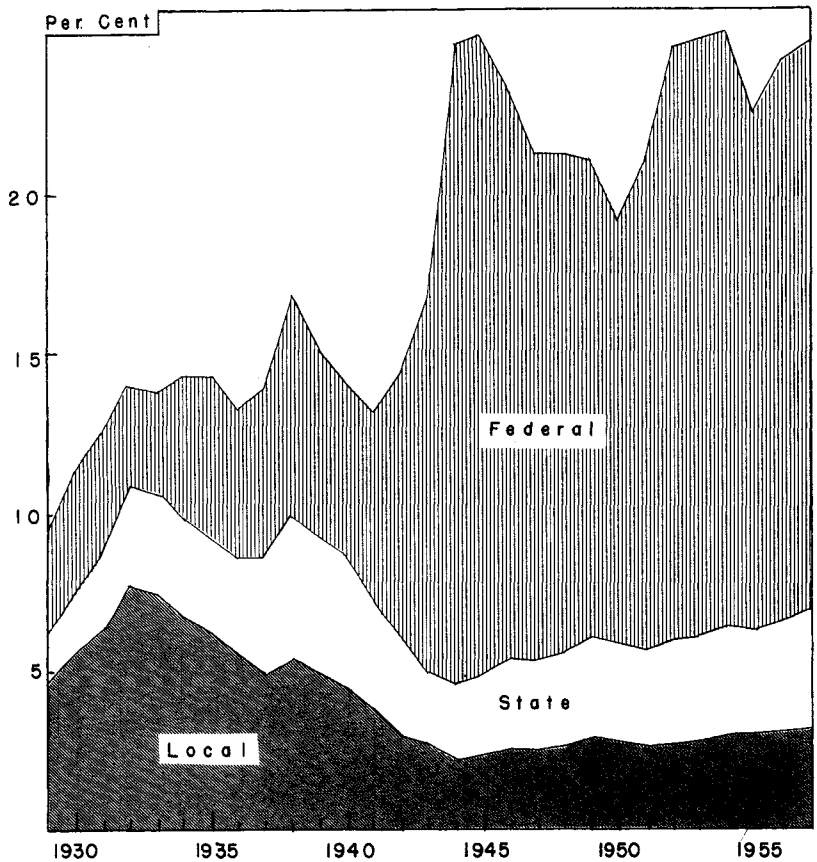

Figure 2. Federal, State, and Local Taxes as a Percent of Gross National Product, United States, 1929-57

highway construction and 2 billions for public assistance to needy persons. The 6.9 billions figure is more than double that of five years ago.

Despite the importance of federal activities and finance, the states and localities are the home governments traditionally and presently responsible for providing most public services that affect intimately the daily lives of their citizens. These governments conduct the public schools and colleges, build and maintain the roads and streets, give aid to the needy, run public hospitals for the physically and mentally ill, operate public water and sewerage facilities, provide police and fire protection, record births and deaths, issue licenses to hunt and to marry, and perform dozens of other services, both menial and exalted, that are demanded by voters of a civilized, increasingly intricate rapidly changing, free society.

STATE AND LOCAL GOVERNMENT ORGANIZATION

Aggregate state-local statistics are deceiving if they convey the impression of country-wide uniformity in any respect, financial or otherwise, relating to these governments.

The federal Census Bureau counted over 102,000 governments in the United States in 1957, ranging from 91 in Rhode Island to over 6,000 apiece in Nebraska, Illinois, Minnesota, and Kansas. The Census classifies them as follows:

Counties	3,047
Municipalities	17,183
Townships	17,198
Special districts	14,405
School districts	50,446
States	48
United States	1
Total	102,328

County governments cover all but a small fraction of the area of the United States. Township governments are largely confined to the Northeast and Midwest. School districts are by far the most numerous. They range from none in a few states (Maryland, North Carolina, Virginia, Rhode Island), where other local governments are responsible for schools, to almost 5,000 in Nebraska, where the small school district of tradition continues.

The local government units reflect a pattern established in an earlier era, and the states and their people have been slow to change it. The one outstanding exception is school districts which declined from 109,000 in 1942 to 50,000 in 1957 as the movement for consolidation of small school districts into larger units has gained momentum in some states. The number of townships has been reduced somewhat in a few states, while urbanization has tended to increase the number of municipalities and special taxing and improvement districts.

Variety in the state and local pattern is by no means confined to numbers and kinds of governments. Differences occur both from state to state and within states: in division of important functions and responsibilities between state and local governments as well as among local governments; in organization of state and local units; in power extended to local units; in their area, population, and resources; in taxing authority of states and localities; in state financial and other aid to localities; in the kind and quality of state and local services per-

formed; in overlapping layers of local government; in readiness to change; and in many other things.

We must, therefore, guard against easy generalization. For example, townships are often criticized as relics of a bygone age, too small for effective performance. This is probably true of many townships, but some of them are larger in population, area, and scope of government services than some counties.

Local and state finance relates importantly to number, kind, and organization of local governments, and the division of power and responsibility between the state and its localities. For example, equalization of tax burden, however one may define equalization, is simpler where few local governments do little than where many overlapping units have numerous and costly responsibilities. One taxing jurisdiction, such as the state, can equalize better than hundreds or thousands of local taxing authorities.

WHERE THE MONEY GOES

Although state and local governments perform many services in a variety of ways, three general functions are typically the most expensive, particularly in rural areas: education, highways, and aid to the needy.

The Census reports the following preliminary figures on state and local expenditures for 1957:[2]

	Billions	*Billions*
Education:		
State institutions of higher education	$ 2.0	
Local schools	12.2	
Other education	0.3	$14.5
Highways		7.8
Public welfare		3.4
Hospitals		2.4
Health		0.7
Police		1.5
Local fire protection		0.8
Sanitation		1.4
Natural resources		1.0
Local parks and recreation		0.6
Housing and community redevelopment		0.5
General control		1.7

[2]U. S. Bureau of the Census, Governments Division, *Governmental Finances in the United States, 1902 to 1957* (Advance Release No. 9), March 1959. See figures in following section for revenues offsetting liquor store expenditures and utility outlays.

	Billions	Billions
Interest on debt		1.1
Other		3.1
General expenditure		$40.4
Liquor stores		0.9
Local utilities (water, electricity, transit, gas)		3.5
Insurance trust expenditure:		
Employee retirement	$ 0.9	
Unemployment compensation	1.5	
Other	0.3	2.8
Total		$47.6

Education, highways, and welfare together account for 54 percent of total expenditure and 64 percent of general expenditure. Education leads by far, not only among state-local activities, but also compared with federal nondefense functions. The scope of public welfare is perhaps unusually difficult to define. Considered broadly, it might include much of the hospitalization, health, and possibly unemployment compensation. If all of these were included under welfare, the total would be 8 billion dollars, much less than for education but more than for highways.

In most rural communities, the proportions of state and local expenditure for education, highways, and probably welfare are almost certainly higher than these figures indicate because rural areas probably spend little for local government utilities, or for public sanitation, parks, housing, and the like.

Local governments spend all but a fraction of the state-local total of 12.2 billion dollars reported for local schools. They take the main responsibility for the administration of public elementary and secondary schools. They also spent a substantial portion of highway outlays, though the pattern varies among states more than for schools. Nationally, local governments spent 37 percent of the state-local total. Almost half (49 percent) of state and local welfare expenditures were made by local governments, and again the degree of local responsibility differs widely from state to state.

WHERE THE MONEY COMES FROM

The Census summary shown here reports state and local taxes totaling 30.6 billion dollars in 1957.[3] Revenues other than tax aggregated 15.5 billions, so that total revenues exceeded 46 billions.

Country-wide, taxpayers pay more than twice as much to the national government as they do to state and local units, and pay this

[3] *Ibid.*

TAXES AND OTHER GOVERNMENTAL REVENUES COLLECTED BY SOURCE AND BY LEVEL OF GOVERNMENT, FISCAL YEAR 1957[1]

	State	Local	State—Local	Federal	Total
		Billions of Dollars			
Individual income	1.6	0.2	1.8	35.6	37.4
Corporate income	1.0	[2]	1.0	21.2	22.2
Sales, gross receipts, and customs:					
Customs duties				0.7	0.7
General sales and gross receipts	3.4	0.7	4.0		4.0
Motor fuel	2.8	[3]	2.9	1.5	4.3
Alcoholic beverages	0.6	[3]	0.6	2.9	3.5
Tobacco products	0.6	[3]	0.6	1.7	2.3
Other selective sales and gross receipts	1.1	0.3	1.4	4.3	5.7
Total	8.4	1.0	9.5	11.1	20.6
Property	0.5	12.6	13.1		13.1
Other					
Motor vehicle and operator licenses	1.4	0.1	1.5		1.5
Death and gift	0.3	[3]	0.3	1.4	1.7
Other	1.4	0.6	1.9	0.5	2.5
Total	3.1	0.7	3.7	1.9	5.6
"Social security" taxes					
Old age, survivors and disability insurance				6.9	6.9
Unemployment compensation	1.5	[3]	1.5	0.1	1.6
R.R. retirement				0.6	0.6
Total	1.5	[3]	1.5	7.5	9.1
Total taxes	16.0	14.5	30.6	77.4	107.9
Other revenues					
Charges and miscellaneous receipts	1.9	3.5	5.4	9.4	14.9
Utilities (water, transit, etc.)		2.9	2.9		2.9
Insurance trust except "social security" taxes	1.7	0.4	2.1	1.1	3.2
Liquor stores	1.1	0.1	1.2		1.2
From other governments (largely grants-in-aid)[4]	3.9	7.6	3.8		
Total	8.6	14.5	15.5	10.6	22.2
Total revenue	24.7	29.1	46.0	87.9	130.1

[1]Detail may not add to total due to rounding.
[2]Included in individual income tax.
[3]Less than .05 billion dollars.
[4]These intergovernmental transfers are cancelled out of totals; state-local totals include only receipts from federal government.

amount predominantly in the form of income taxes. Locally, the property tax is the largest source of revenue except possibly in a few urban centers. The sources of state taxes generally are more diversified than either federal or local; imposts on income and sales, both general and selective, are more important than others, and levies of highway user taxes are universal and sizable.

The property tax comprised 87 percent of local tax collections

of 14.5 billion dollars. It accounted for 43 percent of all state and local taxes, although state amounts ranged from 19 percent in Alabama to 68 percent in Nebraska.

Money from other governments (7.6 billion dollars), largely state and federal aid, was 26 percent of total local revenue and 30 percent of "general revenue" (state and federal aid, taxes, and charges and miscellaneous receipts). The percentage of general revenue ranged from 10 percent in New Hampshire to 55 percent in New Mexico.

State and federal aid averaged 61 percent of local outlays for welfare, 37 percent for roads, and 35 percent for education. Aid for education ranged from 5 percent in New Hampshire to 74 percent in New Mexico.

INTERSTATE VARIATIONS IN TAX BURDENS

State and local taxes per capita averaged $178 in 1957, and ranged from $104 in Arkansas to $249 in California. They were generally low in the Southeast; they were high on the West Coast, and in some states of the Northeast, the Great Lakes, and the Rocky Mountains.

People in some states pay more per person for desired government services because they have higher incomes and apparently feel better able to afford the costs.[4] Personal incomes per capita averaged $2,027 in 1957; the average in the low state (Mississippi) was $958 and the high state (Connecticut) $2,821. Incomes in the Southeast were relatively low.

State and local taxes as a ratio of personal incomes averaged 8.8 percent over the United States, and ranged from 5.2 percent in Delaware to 11.9 percent in North Dakota.

The interstate variations in tax burden probably result also partly from the fact that most high income states have heavy urban concentrations. Governments in these areas levy taxes to perform services that elsewhere would be provided privately. Most farmers must furnish their own water supply, sewerage, vehicles for transportation, and other facilities that in densely settled communities are often financed collectively through government.

Taxes are probably high in some relatively sparsely settled areas, even though services are not numerous, because the costs per person are high.

[4]Costs per unit of service may also be relatively high partly because of wage and other price differentials.

In some areas the voters or their representatives have chosen relatively low standards of public services even though average incomes are better than elsewhere. Efficiency of performing given levels of service also undoubtedly differs widely among states and communities. Numerous other factors underlie interstate variations in tax burden.

If federal taxes could be added to state and local taxes, some very useful interstate comparisons could be made. However, a question immediately arises regarding who really pays federal taxes. For example, who really pays the cigarette tax, actually levied upon manufacturers? Corporation headquarters in New York or Delaware may send a check for the corporation income tax, but upon whom does the burden of this tax finally fall—the consumer, early or late in the chain of distribution; the workers; or stockholders; or some variable combination of all three?[5]

Local taxes totaled 14.5 billion dollars in 1957, compared with 16.0 billions of state. Local levies were 47 percent of combined state and local taxes. This proportion varied in the extreme from 12 percent in Mississippi to over 65 percent in New Jersey. Other states, where local taxes are a relatively high proportion of the state-local total, appear to be located primarily in the Northeast, Midwest, and Great Plains. The low states in this respect are mostly in the Southeast but also include a few other scattered states.

Local taxes have tended to lessen in importance relative to state over the past few decades. This trend has been most pronounced in the Southeast and the southern Mountain states.

The changing relative importance of federal, state, and local taxes is not precisely paralleled on the expenditure side because the federal and state governments transfer some of their revenues to lower governments as grants-in-aid and in other ways to be discussed later.

A GLIMPSE AHEAD

The future course of taxes hinges importantly upon the services expected of states and their local units.

Competent analysts predict considerably higher state and local expenditures over the next several years. *Fortune* magazine forecasts expenditures by 1970 almost double those of 1957, and almost as great an increase in Gross National Product, so that the ratio of expenditures to GNP would rise slightly.[6] The only realistic answer seems to be a sizable increase in expenditures.

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[5]For a concise discussion of tax incidence, see Selma J. Muchkin, "Distribution of Federal Taxes Among the States," *National Tax Journal,* June 1956.

[6]Robert Lubar and Charles E. Silberman, "The Taxes Closest to Home," *Fortune,* June 1959.

A Census projection forecasts a 29 percent increase in children of elementary school age between 1957 and 1970, a 56 percent gain in the high school age group, and 63 percent in the college age. Children have tended to remain in school longer. Higher proportions of those of high school age enter and finish high school, and a higher proportion of high school graduates go on to college. In addition, people in many communities are demanding improvements in the quality and scope of education.

Highway maintenance and construction, as another important state-local function, almost certainly will require more money over the next several years. The basic factors are the fantastic rise in traffic and the growing dependence upon automotive transportation as a necessity of life, together with the lull in construction during most of the thirties and forties. Construction needs extend beyond the widely publicized and extremely expensive interstate highways to local rural roads and relief of urban congestion.

Nor does the end seem to be in sight for growth of public welfare expenditures, the third typically major cause of local-state outlays in rural areas. The scope of aid to the needy depends importantly upon what the public considers to be needed. Need is a relative term, and appears to relate to standards of living. The standards for education and highways have been rising, and will continue to rise, if current predictions of GNP growth are reliable.

HOW WILL WE GET THE MONEY?

If assumptions underlying most predictions were to eventuate, we might accumulate needed taxes and other revenues in state and local treasuries with no more than the usual anguish, and perhaps less.

One of many jarring notes relates to the assumption of constant price levels. If inflation, instead of constant prices, should continue over several years, the forecasters expect that this factor would hold down government outlays in terms of constant dollars, i.e., appropriating bodies generally would not increase appropriations enough to compensate fully for inflation. The lag in state and local tax collections would be even greater, and the gap between expenditure and revenue could become generally serious. For example, while prices of goods and services to government would be forced up by inflation, property taxes at a constant rate on assessed value would provide progressively less purchasing power in most tax jurisdictions, as assessors fell behind in the struggle to raise assessed values proportionately with market values.

What might happen in the event of deflation, the forecasters have apparently considered too remote or too difficult to contemplate.

The progressive personal income tax has a built-in elasticity factor that responds to both inflation and real GNP growth. Sales taxes also respond to dollar sales growths. Taxes levied at so much per physical unit, such as on packs of cigarettes or bottles of liquor, are still less responsive.

The property tax base may be more responsive than usually thought to secular changes in GNP, as distinguished from disastrous deflation such as in the early thirties, and sharp or prolonged inflation.[7] But we have had inflation since the second World War, and many find it difficult to eliminate it from the picture of the next decade or more.

THE PROPERTY TAX

The property tax is primarily a local tax, levied and largely administered locally. In most of rural America it is the only local tax of fiscal consequence. It has been said since rather early in our history that property has taken all the taxation that it can bear, but dollar-wise the tax bill continues to grow. This tax has been the focus of a great amount of study, despair, and disrepute. It remains with us, and probably will continue to be important though its relative importance may dwindle.

Property tax weaknesses include:

1. Poor assessment or valuation of property in the tax base.
2. Extreme variations among local governments in the relation of taxable resources to services to be financed.
3. State constitutional and statutory restrictions upon effective use of the tax.

Criticism of this tax should not obscure the fact that the other major taxes in the United States also have serious defects. We might depend practically entirely on income and related taxes except for this fact. In the real world we hedge our bets and hopefully try to minimize injustice in one tax through some dependence on other imperfect levies.[8]

ALTERNATIVES TO THE PROPERTY TAX

Some alternatives to the property tax include:

1. State grants of power to localities to levy taxes other than on property.

[7]Dick Netzer, "Financial Needs and Resources Over the Next Decade: State and Local Governments," *Conference on Public Finances: Needs, Sources and Utilization,* National Bureau of Economic Research, April 1959.

[8]See, for example, *The Federal Revenue System: Facts and Problems, 1959,* materials assembled by the Committee Staff for the Joint Economic Committee, Congress of the United States, 86th Congress, 1st Session, Joint Committee print.

2. Sharing state-collected taxes with localities from which the taxes are derived.
3. Sharing state-collected taxes through state grants-in-aid.
4. Sharing federally collected taxes through federal grants-in-aid.
5. State or federal direct assumption of some responsibilities of local governments.

What are the requirements of a "good" tax? To some people the only "good" tax is one that somebody else will pay. A good tax system has been defined as one that will:

1. Distribute the cost of government with reasonable fairness among all people who receive benefits from government services and who have taxpaying ability.
2. Be readily understood by the taxpayer and as convenient for him to pay as possible.
3. Be relatively easy to administer to minimize administrative complications.
4. Be difficult to evade or avoid.
5. Provide adequate revenue for the needs of local, state and federal government.
6. Be flexible enough to meet changing conditions.
7. Be widely shared.
8. Interfere as little as possible with the private production of wealth.[9]

Alternative Local Taxes

The question of state grants of broader taxing power to local governments is closely associated with the pattern of local units. The property tax is probably better adapted than any important alternative tax for use by small local governments and by overlapping layers of these units.

Some local governments do levy taxes in addition to those on property that yield substantial revenues. They include primarily taxes on general sales or gross receipts, and on income. Local units using these taxes with some success, however, appear to be of more than average size. They usually include at least roughly the area of a natural community or a commercial and trading center of the community. Probably most frequently they are cities, or counties which include cities within their area. These are among the local governments which have felt most the pressure of costs upon revenues.

[9]Garland Wood and William Heneberry, "Michigan's Tax Problem Is You," Open Meetings on Agricultural Policy, No. 22, 1958, Department of Agricultural Economics, Michigan State University.

The general tax on retail sales is commonly considered regressive, i.e., it falls proportionately more heavily upon a family with low income compared with one of high income. Its regressivity is greatly modified when food (and of course rent) is exempt from tax. The property tax, moreover, has the same characteristic.

An objection to the gross receipts tax on business transactions is the inequity of taxing each transaction in the chain of distribution of goods and services. The tax bears no relation to the profits of a business enterprise and penalizes businesses with large receipts and small profits.

The income tax as used locally is typically figured at a flat rate on earned income, and is, therefore, also said to be regressive. The regressivity of these taxes tends to be offset to some degree by the federal (and state) individual income tax, the major revenue producer in the United States.[10]

Other local taxes used to some extent include taxes on sales of specific goods or services, licenses, and per capita levies.

For those who question whether local administrative units can collect the types of taxes discussed as effectively as a larger unit, a few states have provided an answer. In these states localities have been empowered to levy a sales tax which the state is required to collect. This arrangement leaves responsibility for levy of the tax with the locality. It does not, of course, contribute toward equalization of financial resources between areas which are well endowed with taxable wealth or income and those which are not. It simply gives localities broader powers to tax the resources within their boundaries.

State Shared Revenues

Some states have taken responsibility for local finance by sharing state-collected, state-wide taxes with local governments in the areas from which the imposts are derived. An objection to this procedure is that state revenues are not allocated among local units according to need but according to geographical source of collections. The local government receives the funds without responsibility for levying the tax itself.

This objection was met in part in New York soon after the second World War when it substituted a general per capita allocation for several state-shared taxes. Population was considered a good general measure of need.

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[10]For a brief analysis of these alternative local taxes, see Frederick D. Stocker, "Nonproperty Taxes as Sources of Local Revenue," Cornell Agr. Expt. Sta. Bul. 903, December 1953.

State Aid

State-collected taxes shared through grants-in-aid to local governments have become an increasingly important source of local revenues in recent decades. This arrangement constitutes a middle ground between leaving financial, administrative, and political responsibility for a function primarily with local governments, and having the state assume responsibility directly.

The state typically makes the grant to local governments, which must use the money for a specific function, provide some of the funds themselves, and meet other conditions. A common method of sharing costs between state and locality is a 50-50 or other flat matching percentage. Methods have often become more complicated in order to gauge grants according to need. This is particularly the case with state aid for local schools.

The grants-in-aid are more adaptable to equalizing among local governments the fiscal burden of providing services than are state-shared revenues or locally levied taxes.

Federal Aid

Sharing federally collected taxes through grants-in-aid also is becoming an increasingly important and complex alternative to local property taxation. Like state aid it may be considered as a middle ground between relatively complete state responsibility and federal. Most grants are made to states rather than directly to local governments. The states may in turn pass the funds on for local expenditure supplemented by state aid, as in the public assistance programs in some states.

An alternative for at least some federal grants, which has received some support, is the national government's withdrawing from certain tax fields suitable for state or local use and reducing its grants in comparable amounts for programs considered best adapted for state-local administration. The federal admissions tax is an illustration. Some states would benefit financially more than others from such action because the ratio of program outlays to the taxes varies from state to state. Neither Congress nor the states have shown enthusiasm for these proposals, but rather have seemed to move toward more federal aid for more programs.

FINANCE AND LOCAL-STATE-FEDERAL RELATIONS

The federal system for dividing responsibility between states and the national government was a compromise partly influenced by concern of the designers of the Constitution about the dangers of concen-

trating governmental power. Similarly, the states divided responsibility between state and local governments.

The issue of concentration of power persistently intrudes upon questions of local and state finance. We would be realistic to recognize it. Local consolidation, state and federal grants, state and federal assumption of direct political and administrative responsibility—all generally lead to gathering of greater governmental power into larger units and into the hands of professional experts in the administration of one specialty or another. This is often a factor implicit in local or state reluctance to sanction change. Maybe the age is past for entertaining uncomfortable reservations, although we have neither clear nor consistent evidence that humans have become more benign, trustworthy, and capable in exercising power. Maybe concentration of power is the price of survival in the present-day precarious world situation and state of technology. Yet some people still question whether we risk losing valued liberties and responsibilities by failing to discriminate adequately between what must be controlled from the center and what can be better left on the periphery.

On the other hand, White says:

> In the competition for power, success is likely to be won by those who can effectively use power. On the record of the last half century the federal government has demonstrated on the whole a capacity to use power more effectively than the states. It is for this reason, among others, that the American people have agreed that the national government should take charge and get action across the nation. . . . If the states do not possess the competence and the will to act vigorously and effectively, they may continue to lose the capacity to act.[11]

More specifically, what could most states do better to win the "capacity to act"? Of the many possible answers, the following seem pertinent:

1. Develop more far-sighted and effective political and administrative leadership.

2. Recognize more clearly that in state and local affairs, as in other areas of American activity, we must make optimum use of modern technology and professional expertness.

3. Face the fact that local and state finance has become important in total dollars required, and that considerations of equity, therefore, are not only of academic interest but of pressing practical significance.

[11]Leonard D. White, *The States and the Nation,* Louisiana State University Press, 1953, p. 56.

Leadership

Lack of effective, far-sighted leadership limits the capacity to act in many state and local governments. How do you develop leadership? Probably no one knows all the answers, but one possible start is to stimulate interest in the important issues of state and local affairs among people possessing leadership capacity.

Technology and Professional Competence

State and local government can no more afford to ignore technological advances and technically expert personnel than can the farmer or rancher. Like the farmer, this probably means "adding more land" or consolidating units, reducing the number of local units (even as the number of farms has been reduced), increasing capital investment in equipment and materials, and putting more money and imagination into improving managerial competence.

One most commonly mentioned adjustment is reduction and consolidation of local governments. The traditional small school district, still widely extant in many states, probably represents a more serious situation than other local rural units, because education is relatively costly. Much, though not all, of the need for state aid may arise because of the extreme disparity in local tax resources among minutely compartmented areas.

Other adjustments in size of operations sometimes proposed are:

1. Reduction of multiple layers of local government. In some states a farmer lives in a minimum of three: the county, township, and school district. Townships, and even school districts, have been eliminated in some states by placing their functions under the county.

2. Enlarging the area of many counties.

3. Cooperative arrangements among local governments for performing functions, and sharing equipment, personnel, and the like.

4. Consolidation of management under one executive head. This proposal is directed principally to counties and cities.

How much of this sort of consolidation is required? Scientific information is scanty. We need to study more carefully what things a reasonably sized local government can do better than the state or national governments from not only a fiscal and administrative but also a political standpoint.

For schools, a current conclusion is that no school organization should be so small that it has less than 100 in the high school senior class, except where students live so far apart that this is clearly impractical.[12]

Other studies have shown that up to an uncertain point, the per capita cost of performing government services is lower in communities of relatively large population than small. This information may often be misleading, however, partly because population density is an important interrelated variable, i.e., per capita costs are frequently high primarily because of sparse settlement. Nevertheless, evidence points toward greater economy and better performance from as large-scale an operation as is likely to be attained in practice.

Transportation and communication are often cited as a controlling factor in determining the manageable size of local government operations; the automobile has replaced the horse and buggy. This factor is important, but we should not ignore another. A traditional advantage of local government is knowledge of local conditions and people. There are human limits to the area and number of people about which local representatives can have knowledge, though modern facilities extend the possibilities.

Since local consolidation essentially means concentration of power, many people are reluctant to accede to this locally. Yet one way of restraining the march of power to the central government may be to concentrate and use more fully the power in the local and state capitols. This may also serve to focus responsibility, which is now typically widely diffused locally, so that the citizen may know better whom to hold responsible.

Equity and Finance

Consolidation offers several advantages from the standpoint of taxation. It will probably make possible substantial improvements in tax equity. Broadening taxing powers of larger, more populous areas is easier and more reasonable than for smaller or sparsely populated areas. The range of variations in tax burden may be narrowed. Tax administration will probably be more effective and efficient.

The cautious world "probably" appears here deliberately. Some have long advocated property assessment by counties rather than townships. Yet the record of county assessment in some states appears undistinguished. New York prizes its reputation for good state administration. Yet it estimated that it would pick up 25 to 40 million dollars more this year from the state personal income tax by inaugurating a

[12]James B. Conant, *The American High School Today,* McGraw-Hill, 1959.

withholding or payroll deduction system. This tacitly recognizes that many people have heretofore dodged this tax successfully. The federal Internal Revenue Service has recently asked for several hundred more helpers to collect the federal individual income tax with the expectation that the revenues collected will substantially exceed the outlays for such personnel. Size of jurisdiction may help within limits, and we need to recognize the limits. An important factor is the amount of alert, intelligent, and sustained public interest and leadership.

Even with more rational areas for local political subdivisions, considerable variations in tax burden relative to services would remain. The state would continue to be a more logical unit than localities for levying and collecting some types of taxes. Also, the state would be in a better position to allocate grants fairly because it would need to consider fewer local governments with a narrower range of circumstances.

More intelligent and fairer use of state aid might call for more unconditional general purpose grants. Short of this, conditional grants with a more general purpose should be considered, as opposed to the now typical multiplicity of grants which are narrowly focused and meticulously conditioned. Refreshing results might be obtained by stimulating local leadership to take responsibility for judging priorities of local needs instead of blindly chasing state dollars down narrow program alleys. The present situation all too often leads to unwanted proliferation of state rules and regulations, as localities seek interpretation from state supervisory agencies in order to qualify for the last possible dollar on some carefully defined program.

Federal grants to states are often justified on grounds similar to state aid to local governments. As for state aid, a common federal justification is federal interest in insuring through this fiscal device that one or another program or service is carried out. Thus the federal government, too, focuses the money on narrowly defined program objectives.

To some degree this probably cannot be avoided. Yet it seems appropriate to raise a seldom-raised query: Is there a national interest in encouraging development of state (and local) governmental leadership, power, and authority?

We need to make optimum use of technology and professional skill in performing government services that are primarily local and state responsibilities. We need to derive necessary revenues without unjust disparities in tax burdens among communities and individuals. We might weigh these things, recognizing the possibility that the designers of our Republic may not have been entirely mistaken, even under modern conditions, in devising safeguards against abuses of power.

BIBLIOGRAPHY

The Governments Division of the U. S. Bureau of the Census is currently publishing a variety of reports resulting from its 1957 Census of Governments, including "state bulletins" for each state. The Census is a valuable source of current and historical statistical information.

Other citations appear in the footnotes above. In addition, a standard text on public finance may be useful to those who are not currently familiar with local and state finance.

A more elaborate mimeographed bibliography and "statistical abstract" was prepared for the conference and is available on request.

PART III

Problems and Trends in Agricultural Policy