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12 State-City Revenue Sharing Policy: Local Need versus State System Explanations

John P. Pelissero

The states have been thrust into a more pivotal role under the evolving "New Federalism." Reagan administration officials are pressuring the states to develop the capacity and willingness to be effective partners in a system of new federalism, where the federal role is reduced and state and local governments are the managers of their own problems. Specifically, the reduction in federal aid for local governments demands that states recognize the new, critical role of state assistance for urban areas and small communities, alike. Most local governments that experience a reduction in federal aid in the 1980s will seek an increase in state aid, but it will be crucial for the neediest communities, those with socioeconomic and fiscal problems that will be most adversely affected by federal aid cuts. The compelling demand that states now face is to structure state assistance to be responsive to community needs.

States provide both financial and programmatic assistance to local governments. The vast amount of state financial assistance is categorical in nature, with the largest allocations going to local governments for education and public welfare. But since 1960, noncategorical aid—state revenue sharing—has accounted for 8 to 10 percent of total intergovernmental expenditures in the 50 states. Since state revenue sharing is allocated to local governments for locally determined purposes, it presents one of the best mechanisms for aiding communities most severely affected by the loss of federal dollars.

REVENUE SHARING IN THE STATES

How extensive is revenue sharing in the states and how do states allocate these funds? The Advisory Commission on Intergovernmental

Relations (ACIR, 1980) reports that 49 states have established revenue sharing programs with their local governments, and that these funds are distributed to local governments following four popular criteria. First, returning money to the location of origin of the revenue is used when the state collects sales or income taxes that are locally imposed and then returns these to the locality. Second, reimbursing local governments for property tax exemptions authorized by state statutes is used to distribute as much as 40 percent of state-local revenue sharing (ACIR, 1980:5). Third, in 1977, 30 states allocated all or part of their revenue sharing money to local governments on a per capita basis (ACIR, 1980:6-7), which, while politically popular, does not consider the differential needs of communities and their residents. Finally, states have begun implementing revenue sharing programs that factor-in the needs of a local government. Twenty-three states have needs-based systems (Cohen, 1982:19), with need defined in terms of either local government tax capacity, tax effort, or social and economic need.

Revenue sharing has been the third largest category of state aid since the 1970s, following only aid for education and welfare. In 1982 states spent over \$10 billion on local government revenue sharing, or 10 percent of total state aid. With most education and welfare funds going to other units of local government, revenue sharing is, in many states, the most important form of state aid for cities. It has grown faster than any other category of state intergovernmental spending over the past two decades, with a 1962-1982 growth rate of 1,100 percent.¹ Just how effective are the states in targeting funds to those communities most in need? The research reported here analyzes state-city revenue sharing over a 21-year period to determine the importance of city needs in the revenue sharing receipts of large U.S. cities. In addition to city need, a series of state-level factors are analyzed to assess their impact on revenue sharing.

THE RESPONSIVENESS OF STATE AID TO CITIES

The number of studies examining the responsiveness of state aid to cities has increased in recent years. Much of the research has examined either the total state financial aid program for cities or programmatic forms of assistance with most finding state aid to be responsive to some aspect of community need. For example, Dye and Hurley (1978) showed that states were responding to needs in central cities of Standard Metropolitan Statistical Areas (SMSAs) and apparently did this better than the federal government. Teitelbaum and Simon (1979), writing for the National Governors' Association, found states to be good targeters of aid, particularly when applying federal pass-through funds to cities. In a critique of Dye and Hurley's research, Ward (1981) argued that the use of per capita measures of state aid along with percentage measures of need may be misleading if such measures distort the actual relationship

between need and state or federal outlays. Ward's reanalysis using total state aid (unadjusted for population) and the actual size of the city population in need (e.g., total elderly, not proportion elderly) demonstrated much stronger relationships between total aid and actual size of the need.

Subsequent research into state-city aid programs has considered this issue when analyzing the targeting of state funds. For instance, Morgan and England (1984) used total measures of state aid to examine fiscal and programmatic assistance to cities. Analyzing state programs for cities over 50,000 population, they found city distress to be an important determinant of aid allocations from 1962 to 1977. Residual state aid to cities was examined by Pelissero (1984). By regressing state aid on city population, this research examined only the nonpopulation-based portion of state aid receipts in major U.S. cities. The results supported earlier findings that state aid was responsive to city needs and further demonstrated that states became better targeters over time.

Research on the relative responsiveness of state revenue sharing programs is limited. One important study that has examined the effectiveness of state formula and project grants to cities (Stein, 1981) found project grants to be better targeted to social and fiscal need. One of the implications of these findings is that states with project-based revenue sharing programs can target such funds to needier communities better than with formula mechanisms, such as population-based programs. Stein also noted that the conclusions in some of the above studies must be cautiously interpreted, since each state has its own set of rules for distributing funds. He has shown that the observed responsiveness may be due to the very effective targeting of just a few states.

Given the concerns raised above, it seems appropriate to consider, in addition to need, several state system factors that may affect the distribution of state-city revenue sharing. Since state revenue sharing distribution systems are somewhat varied (ACIR, 1980), certain states will clearly be better targeters to local need than others. One of the assumptions of this research, then, is that states using a needs-based distribution system will be better targeters than states employing reimbursement, population, or formula-based systems.

More broadly, state resources in general may be hypothesized to affect state policies for urban areas. Policy scholars have shown that a state's economic resources are linked to policy outputs (see Dye, 1976); that state income is related to urban policies (LeMay, 1973); that state affluence and industrialization are positive determinants of state financial and programmatic aid to cities (Morgan and England, 1984); and that state revenue efforts are often tied to the state's disposition toward aiding local governments (Stonecash, 1981). Presumably, then, greater state resources should be positively related to state-city revenue sharing.

A third consideration revolves around the legal "service provision" relationships between states and cities. States that have become more central providers of local services (Stephens and Olson, 1979) are also found to give less aid to local governments (Morgan and England, 1984). In addition, states have been shown to give larger aid amounts to cities with heavier financial burdens, those who fund education and welfare services from the municipal budget (Morgan and England, 1984). Further research into state categorical aid to cities for welfare and education supports the proposition that state aid for these two functions is targeted to cities with more educational or welfare responsibilities (Pelissero, 1985). However, the direct link to revenue sharing is less likely to be significant. In fact, we may assume at this point that cities with more functional responsibilities for education or welfare will not receive larger amounts of revenue sharing, since the state may have already compensated them for these services through categorical aid programs. One might even argue that such cities will receive less revenue sharing money, since they receive more than average aid in the education and welfare areas, making their total state aid larger than cities without these functional responsibilities.

This chapter attempts to extend the state aid responsiveness literature by focusing on state revenue sharing programs. Given that need is a stated criterion in at least 23 state revenue sharing programs, it seems appropriate to analyze how well targeted are revenue sharing funds for large cities. The importance of state resources, revenue sharing distribution systems, and municipal government service obligations will also be examined to see if local need or state system factors are the more important determinants of state-city revenue sharing policy.

DATA AND METHODS

This chapter attempts to answer the general research question—*is state-city revenue sharing targeted to the neediest cities?* More specific questions include: *Have states become better targeters of revenue sharing funds over time? Have particular dimensions of city need been more influential in state revenue sharing allocations than others? Or are state-level factors more important determinants of state revenue sharing with cities?* To answer these questions, data have been collected on the 47 largest cities in the states. This sample includes all cities that had 1970 populations of 300,000 or more (but not cities that achieved a 300,000 population later than 1970.)² These large cities were chosen for the sample because the most serious problems that came to be associated with the urban crisis were and still are found among this group. For this reason, one would expect state governments to be somewhat better acquainted with the problems and distress in these cities. Such an

awareness could provide the opportunity for targeting state-city revenue sharing to these city governments.

The analysis of state-city revenue sharing covers three time periods. The first year studied is 1962, a period before the awakening to an urban crisis in this country, and one which also witnessed little in terms of an active role for states in urban affairs. Consequently, one would not expect significant targeting of state-city revenue sharing to have occurred during this time. The second time point is 1976, or 15 years later. Following the peak of the urban crisis and the predominant federal role in urban problem-solving, this period was chosen to reflect the evolving state capacity and willingness to aid urban areas. Here one expects to see somewhat better targeting of state revenue sharing to needier cities because state legislatures have been reapportioned; adding more urban legislators, many states have established state-level departments of urban affairs, and both the federal-local grant developments and the crisis in cities during the previous decade forced states to take a more active role in city problem-solving. The final time period is 1982 and was chosen to assess targeting practices at the start of a more state-centered federalism era. The expectation is that state responsiveness to city needs will be most pronounced 20 years after the first period analyzed. Also, of interest here is the degree of targeting taking place two years after President Reagan began signaling his intent to increase state responsibility for local problems.

The dependent variable is state revenue sharing receipts of sample cities in each of the three years, derived from Census Bureau reports.³ These include data by city on intergovernmental revenue received from state governments for "general support." Among the sample cities, revenue sharing is a sizable component of total state aid for local governments. The average revenue sharing fund in the states in which the 47 sample cities are located and the proportion of total state intergovernmental expenditures for three times points are indicated below:

1962	\$ 26 million	(7.7% of total state aid)
1976	\$181 million	(10.1% of total state aid)
1982	\$305 million	(10% of total state aid)

Not only is size of state revenue sharing important, but so is its growth in state budgets. While state intergovernmental spending increased 800 percent from 1962 to 1982, revenue sharing grew by over 1,072 percent—a faster growth rate than any functional category of state aid.

Because part of state revenue sharing is often allocated on the basis of city population, a pattern typical of much intergovernmental aid (see Copeland and Meier, 1984; Pelissero, 1984), total revenue sharing received by each city was regressed on population to produce a non-

population-determined measure of revenue sharing. Removing population from the dependent variable should not be interpreted as removing the primary or sole basis for distributing the funds, however. Fifteen states among those in which the sample cities are located use population as a factor in allocating state revenue sharing to cities. But population is the dominant factor in the allocation process of only seven cases. The rest of the cities receive revenue sharing with population as only one among as many as six factors weighed in the distribution process. The nonpopulation based residual revenue sharing measures for 1962, 1976, and 1982 allow for analysis of this form of state aid in light of the differential needs of the sample cities. In other words, with population-based factors removed from the measure, one can begin to examine how much state revenue sharing was allocated on a needs basis and how much according to state-level influences.

Since the focus of this study is upon city need, the independent variables used here represent one of three dimensions of need or distress in communities. There is difficulty in defining exactly what constitutes city need—a problem noted by the ACIR (1980) in its own work on state revenue sharing with local governments. Need will be treated in this study similar to its use in previous analyses of intergovernmental aid responsiveness (Cuciti, 1978; Dye and Hurley, 1978; Stein, 1981). That is, three dimensions of city need are included among the independent variables: social need, economic need, and fiscal need. The three indicators of social need, taken from the 1960, 1970, and 1980 censuses, include: (1) elderly (total population 65 years or older), (2) poverty (total families below the poverty threshold), and (3) crime rate (total serious crimes reported). Since each measure is also highly correlated ($r > .90$) with population, each was regressed on population to produce a residual measure of social need. Two economic need variables were also derived from the above three censuses. City population growth rate is a measure of population change in the cities for 1950–60, 1960–70, and 1970–80. Home ownership, the other economic need indicator, is measured by total owner-occupied housing during each period.⁴ Finally, two measures of the financial health of city governments have been included. The first of these is city budget deficit or the difference between city revenues and spending in 1962, 1976, and 1982. The second measure is fiscal effort in the same three years, measured as a ratio between general revenue and total personal income in the city.⁵

If state revenue sharing money is targeted to needy cities, then residual revenue sharing will be positively related to the social need and fiscal need measures and inversely related to the economic need measures. The expectation is that targeting did not occur in 1962, and therefore the relationships should be weak or opposite of the expected direction. On the other hand, residual revenue sharing in 1976 and 1982 is

expected to show stronger evidence of targeting, which would be consistent with research on aggregate state aid to cities (Dye and Hurley, 1978; Morgan and England, 1984; Pelissero, 1984).

Because we are confronted with 50 separate and distinct state aid systems (Stein, 1981), a series of indicators will be employed in the analysis that measure state differences. First, a dummy variable has been created for each of the three years that indicates whether or not the predominant criterion in a state's allocation system is municipal need. Since states use as many as six criteria in the revenue sharing distribution system, states that use local need as the major factor have been coded 1, all others are coded 0.⁶ This variable will serve as a state-level predictor that is most directly related to each state's revenue sharing distribution system. The assumption here is that state use of a needs-based allocation system will be positively linked with more residual revenue sharing. To assess state resources, measures of both state tax capacity and tax effort will be included in the analysis.⁷ We can assume that states making greater tax efforts and states with greater tax capacity will also provide more residual revenue sharing funds to cities. Finally, the assignment of major state service responsibilities at the local level will be examined. Cities have been coded according to whether they provide education or welfare services through municipal financing, both of these services, or neither service. This measure is labeled "functional comprehensiveness" (Liebert, 1974). Because functional comprehensiveness has been linked in the literature to both total state aid (Morgan and England, 1984) and categorical aid for education and welfare (Pelissero, 1985) in cities, we expect this variable to be negatively related to revenue sharing in cities.

ANALYSIS OF RESIDUAL REVENUE SHARING, 1962–1982

Multiple regression models were developed for residual revenue sharing and city need for each time-point. The initial models included all seven independent variables measuring need and are displayed in table 12.1. The regression for 1962 showed no significant effects for any of the seven need variables. The multiple correlation (R) of .44 suggests that only 19 percent of the variability in 1962 residual revenue sharing can be accounted for with these need predictors. And although the model is not statistically significant, the analysis is consistent with the expectation that residual revenue sharing would not be well targeted in this first time-point.

The results of the 1976 regression in table 12.1 suggest that some important changes may have occurred since 1962. Three of the seven predictors display stronger and significant standardized regression coefficients (β) in 1976 than in 1962. This suggests that state revenue

Table 12.1 Multiple Regression Models for Residual State-City Revenue Sharing and City Need, 1962-1982

Predictors	Coefficient	1962	1976	1982
Elderly Residual	b	.179	.221	.354
	Beta	.179	.235	.354
	t-ratio	.946	3.021*	1.792
Poverty Residual	b	.175	.016	-.043
	Beta	.175	.017	-.043
	t-ratio	.991	.195	-.286
Crime Residual	b	-.022	-.085	.178
	Beta	-.022	-.085	.178
	t-ratio	-.135	-1.040	1.388
Growth Rate	b	-.022	.004	.001
	Beta	-.118	.036	.056
	t-ratio	-.513	.485	.335
Home Ownership	b	-.000	-.000	-.000
	Beta	-.693	-.992	-.374
	t-ratio	-.276	-10.094*	-1.960*
Budget Deficit	b	-.000	.000	-.000
	Beta	-.284	1.109	-.290
	t-ratio	-1.642	10.330*	-1.555
Fiscal Effort	b	4.656	-.733	3083.715
	Beta	.252	-.060	.211
	t-ratio	1.153	-.778	1.205
(Intercept)	a	-.273	.930	-.309
	R ₂	.44	.93	.70
	R ²	.19	.87	.49
	F	1.13	35.88*	5.30*
	(N)	(42)	(47)	(47)

*p ≤ .05.

sharing was more targeted to need in this year than it had been in 1962, with more revenue sharing going to cities with more elderly, fewer homeowners, and larger deficits. What is surprising in this year is that among the need variables that were not significant predictors, the relationship between revenue sharing and fiscal effort, crime, and poverty moved further away from a pattern of targeting. Overall, the seven-variable model produced an $R = .93$ and accounted for 87 percent of the variability in 1976 residual revenue sharing.

The final model in table 12.1 is the seven-variable regression for 1982. In general, the 1982 analysis shows this to be a poorer model of residual revenue sharing than that for 1976. Although five predictors were stronger determinants in 1982, several displayed sign changes also. All

three social need measures had higher Betas in 1982 than in either 1962 or 1976, but none was significant. And while the pattern of targeting to cities with more elderly and higher crime rates improved, there was a slight drop in the already weak targeting on poverty. Homeownership was the only significant predictor in this year, and its standardized regression coefficient was smaller ($-.37$) than in 1976 also. The most divergent changes occurred among the fiscal need predictors where revenue sharing seemed to improve its targeting to cities making stronger fiscal efforts while also being less responsive to deficits. Although neither variable is significant, this pattern is very similar to the finding for 1962. Overall, this seven-variable model accounts for 49 percent of the variability in residual revenue sharing—a significant drop from 1976. At the same time, the significant predictors in both 1976 and 1982 were those showing better targeting to need.

The next step in the analysis was to assess the importance of the four state-level measures. A first examination of the intercorrelations among these state-level variables demonstrated that all four could not be included in a multivariate model. Specifically, this was due to the high correlation between state tax effort and revenue sharing distribution system variables. In each year there was a strong positive relationship between the two measures, showing that states making strong tax efforts also tend to be states that distribute revenue sharing funds on a local government needs-basis.⁸ Such a relationship is significant in itself and suggests that states with better tax efforts are also more likely to consider local government needs. The tax effort variable will be dropped in the succeeding analysis, though, to permit us to employ the revenue sharing distribution measure in the multivariate model.

Similar to the analysis performed with the predictors of city need, the remaining three state system variables were employed in a multivariate analysis. Table 12.2 displays one multiple regression analysis for each of the three time points. It is clear that in 1962 none of these predictors was a significant determinant of residual revenue sharing in the sample cities. The 1976 model is significant and warrants some discussion. The one statistically significant predictor was the revenue sharing distribution system measure ($\text{Beta} = .29$). This positive relationship indicates that by 1976 residual revenue sharing was somewhat determined by use of a needs-based allocation system in the states. The coefficient demonstrates an improvement over the 1962 model and reflects the wider use of needs-based allocation systems by the mid-1970s. Although not significant predictors, both state tax capacity and functional comprehensiveness displayed somewhat surprising relationships to revenue sharing. Contrary to the expectations, residual revenue sharing was larger among cities that carried a heavier municipal burden for local education and welfare services and whose states had smaller tax capacity.

Table 12.2 Multiple Regression Models for Residual State-City Revenue Sharing and State System Measures, 1962-1982

Predictors	Coefficient	1962	1976	1982
Distribution System	b	.133	.681	1.240
	Beta	.040	.288	.517
	t-ratio	.215	2.09*	4.41*
State Tax Capacity	b	-.001	-.024	-.001
	Beta	-.165	-.212	-.210
	t-ratio	-1.02	-1.54	-1.79
Functional Comp	b	.124	.277	-.260
	Beta	.118	.250	-.365
	t-ratio	.627	1.84	-3.12*
(Intercept)	a	.910	2.16	.900
	R ₂	.24	.49	.66
	R ²	.06	.24	.43
	F	.72	4.35*	10.57*
	(N)	(42)	(47)	(47)

*p < .05.

The 1982 analysis suggests the best model for residual revenue sharing. By that year, two of the predictors—the distribution system and functional comprehensiveness—were significant. As hypothesized, larger revenue sharing receipts in the sample cities were found where cities had fewer functional responsibilities and the state used a needs-based distribution system. Again, state tax capacity was negatively related to revenue sharing. This three-variable model explains 43 percent of the variation in the cities' residual revenue sharing receipts, better than either 1962 or 1976. The final time-point analysis also suggests a turn-about in this form of aid. No longer was more revenue sharing found in cities that had more education and welfare services supported by the municipal treasury. As expected, this may indicate that states gave less revenue sharing to cities already receiving more total state aid (because of the categorical assistance for these functions.) Finally, the trend over the 21-year period is a positive one, with states making important changes in the revenue sharing distribution system that resulted in a stronger relationship with city need.

The final stage in the analysis is to examine the effects of both the city need and state system variables on residual revenue sharing. A more parsimonious set of predictors, including just two city need measures, were chosen for this stage in the analysis. One is a measure of socioeconomic need in cities—elderly. This variable was positively corre-

lated with revenue sharing in each of the three years and is a good measure of dependency in the population due to its strong relationship to income and poverty. The second city need variable to be used is budget deficit. It appears to be a good measure of fiscal need in cities, and it was highly correlated with home ownership. For this reason home ownership was not included in the final analysis, but its effects will largely be represented by deficit and elderly (since most states permit property tax exemptions for elderly).

Table 12.3 shows the final multiple regression models using the combination of city need and state system variables. The weakest model is again that for 1962. The only significant predictor, budget deficit, is negatively related to residual revenue sharing—indicating that the revenue was not well targeted in that year. So as expected, state residual revenue sharing was not very responsive to need during this preurban crisis period. The changes observed in 1976 generally suggest better targeting on the part of the states. For example, there is the expected positive relationship between budget deficit and revenue sharing and,

Table 12.3 Final Multiple Regression Models for Residual State-City Revenue Sharing, 1962-1982

Predictors	Coefficient	1962	1976	1982
Budget Deficit	b	-.000	-.000	-.000
	Beta	-.325	.256	-.054
	t-ratio	-2.09*	1.83	-4.75
Elderly Residual	b	.122	.401	.384
	Beta	.122	.427	.383
	t-ratio	.751	3.25*	3.03*
Distribution System	b	.373	.000	.995
	Beta	.112	.256	.415
	t-ratio	.608	1.83	3.74*
State Tax Capacity	b	-.001	-.001	-.000
	Beta	-.152	-.080	-.072
	t-ratio	-.952	-.624	-.633
Functional Comp	b	.056	.080	-.200
	Beta	.053	.072	-.283
	t-ratio	.284	.544	-2.57*
(Intercept)	a	.816	.802	.260
	R ₂	.41	.68	.75
	R ²	.17	.47	.56
	F	1.42	7.00*	10.06*
	(N)	(42)	(47)	(47)

*p ≤ .05.

also, elderly and revenue sharing. Along with the positive effects of the distribution formula, there is clear evidence that states were doing a much better job of responding to city need by that year. The predictors representing city need are obviously more important determinants than the state system variables in this year; together the five predictors account for 47 percent of the variability in 1976 residual revenue sharing.

The importance of the state system variables is much more apparent in the final model, that for 1982. Although elderly was still a strong predictor, the strongest determinant in that year was the distribution formula. Again in this year we can note that higher residual revenue sharing monies were found among sample cities with greater socioeconomic need, fewer education and welfare burdens on the municipal budget, and where states emphasized city need in the allocation system for revenue sharing. Together, these variables account for 56 percent of the variability in residual revenue sharing in 1982—the strongest of the three models.

CONCLUSION

Local governments are turning to the states, expecting their parent government to pick up some of the slack left by the federal government's reduced role in local problem solving. A clear commitment to this need will be evident in the allocation of state aid monies to local governments throughout the remainder of this decade. One of the easier options for state aid, and one that will be most welcome in communities, is more extensive use of state-local revenue sharing. A strong argument can be made that these funds will be more effective if they are targeted to needier communities. The pattern of targeting that has occurred in residual revenue sharing for cities from 1962 to 1982 suggests that states have demonstrated that they can respond to urban needs.

For instance, the data for 1962 indicate that state-city revenue sharing was not targeted to needy cities. But the change occurring by 1976 generally supports the hypothesis that state revenue sharing would be better targeted following the peak of the urban crisis and restructuring/reapportionment in state governments. State revenue sharing was shown to be responsive to all three dimensions—social, economic, and fiscal—of city need in this period. One could reasonably attribute this change to such factors as the increased state capacity and willingness to play a more prominent role in urban affairs, the example set by the federal government through direct federal-local aid programs, as well as the initial movement toward a more state-centered federalism that began during the Nixon administration. More recently, the analysis for 1982 reveals that although residual revenue sharing does not appear to be as responsive to need as it was in 1976, there is still evidence of

targeting in the 1980s. Yet it seems plausible that states did not actually alter their method of targeting between 1976 and 1982. Rather, by 1982 changing social conditions in cities, such as the growing number of elderly and poor elderly and the increase in reported crime, may have given these social need variables more importance than other need factors. At the same time, the revenue sharing aid mechanism may have become more popular for those large cities that wanted to avoid the additional "grantsmanship" often needed to secure categorical funds. And more states had included local need as a factor in the revenue sharing distribution system. The ease of receiving state revenue sharing funds may have allowed cities to rely upon these funds in lieu of seeking new forms of categorical aid.

In sum, city need is an apparent and important factor in state-city revenue sharing—particularly in the mid-1970s. State system explanations increase in importance over time such that the revenue sharing distribution system is the most important determinant of residual revenue sharing by the early 1980s. We should note that 1982 was only the first year that any New Federalism initiatives were in place. The pattern of targeting observed among sample cities in 1982 may be continuing and perhaps even improving as we move into the middle of the decade and states become more settled with the latest version of state-centered federalism. At a minimum, the evidence indicating that the state role in revenue sharing has been a positive one since the mid-1970s should provide local government officials with a positive outlook on state responsiveness for the foreseeable future. And, if states continue the trend toward wider employment of local government need as a criterion in the revenue sharing allocation process, this type of state aid may become the most responsive form of assistance for cities in need.

NOTES

1. Information was calculated from U.S. Bureau of the Census, *State Government Finances in (year)* for 1962, 1976, and 1982, (Washington, D.C.: Government Printing Office, 1963, 1977, 1983).
2. More exactly, the list is the 47 largest U.S. cities in 1970 exclusive of Washington, D.C., which, of course, receives no state aid.
3. Data for the state revenue sharing variables are taken from Table 7 in U.S. Bureau of the Census, *City Government Finances in (year)*, for 1962, 1975-76, and 1981-82, (Washington, D.C.: Government Printing Office, 1963, 1977, 1983).
4. Data for the social and economic need variables were taken from the 1960, 1970, and 1980 Censuses of Population and Housing.
5. Data for the fiscal need variables were taken from the 1960, 1970, and 1980 Censuses of Population, and *City Government Finances in (year)* for 1962, 1975-76, and 1981-82, Table 7.
6. The basis for distributing revenue sharing is found in U.S. Bureau of the

Census, *Census of Governments, 1962 (and 1977, 1982), State Payments to Local Governments* (Washington, D.C.: Government Printing Office, 1963, 1979, 1984).

7. Data were taken from ACIR, *Measures of State and Local Fiscal Capacity and Tax Effort* (1962); and *1981 Tax Capacity of the Fifty States*, (1983).
8. The correlations are as follows: $r = .61$ (1962), $.56$ (1976), $.61$ (1982).

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13

Incremental and Abrupt Change in Fiscal Centralization in the American States, 1957-1983

Jeffrey M. Stonecash

Change has been a fundamental part of state-local fiscal relations in the United States. Over the last 30 years states have assumed an increasing role in fiscal matters. States now raise a larger proportion of all revenue raised by states and their localities. States also provide a larger proportion of direct services, and local governments are more reliant than ever on state aid as a source of their revenue (Stonecash, 1983, 1985).

While change has occurred, how it occurs is not clear. Is it incremental with politicians making marginal adjustments that nonetheless produce significant cumulative change? Lindblom (1959) suggested that most policymaking is characterized by incrementalism. Beer (1973) argued that in the specific area of centralization the primary driving force is gradual change in the structure of the economy. This fits well with the argument of Dye (1966) that economic forces are primary in affecting state policies. If broad and gradual changes in society and the economy are important, then our explanatory focus might be on how political systems absorb and respond to gradual change.

Others, however, argue that change is just as likely to be abrupt. Jennings' reanalysis of Key's (1949) hypothesis about the "organization" of political groups supports this view. He found that changes in state taxation were abrupt and products of different coalitions gaining control of government (1977, 1979). Wirt (1983:307) and Due (1963:4) argue, respectively, that the Civil War and the Great Depression were sources of significant changes in fiscal responsibilities of state governments. Hansen (1983:149) finds a clear burst of state tax adoptions during the 1930s. From this perspective our theories and methods must be devel-

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Contents

<i>Tables and Figures</i>	vii
Part 1 The Intergovernmental Setting of Public Policy	1
1 The Intergovernmental Dimension of Public Policy <i>J. Edwin Benton and David R. Morgan</i>	3
Part 2 Federal (Central)-State (Regional)-Local Relations	13
2 Federal Aid Cutbacks and State and Local Government Spending Policies <i>J. Edwin Benton</i>	15
3 The Burger Court's View of Intergovernmental Relations <i>Louise Byer Miller</i>	35
4 Environmental Policy and Aspects of Intergovernmental Relations <i>Sheldon Kamieniecki, Robert O'Brien, and Michael Clarke</i>	49
5 The Rise and Emerging Fall of Metropolitan Area Regional Associations <i>Charles P. Shannon</i>	63
6 Financing Local Governments in the German Federal System <i>Arthur B. Gunlicks</i>	77