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Chapter 3

GRANTS FOR PUBLIC ASSISTANCE AND THE BUSINESS CYCLE

1 ORIGIN OF THE PRESENT PROGRAM OF CATEGORICAL RELIEF

Until the depression after 1929 traditional opinion held strongly that the federal government had no responsibility for relief of unemployment or for direct relief. Unemployed employables and unemployables alike, as far as they were a charge upon government, depended upon state-local action. This position was gradually undermined by the continuance of depression and in May 1933 FERA was established to cope with the whole problem of relief. A grant scheme was adopted because most of the states already had relief organizations. To set up a federal relief organization would have meant delay and would have run counter to the precept that efficient administration of relief depends upon decentralization. In one important respect, however, the FERA scheme was to be unlike other grant schemes: in place of a matching provision, the administrator was given discretion to distribute as he saw fit.

Harry Hopkins, the administrator, soon encountered difficulties with the grant scheme. The states and localities wanted to spend for direct relief whereas he preferred work relief; friction arose over federal conditions; administrative determination of the proper federal share of the costs of projects became a game of bluff and pressure.[1] The result was that in 1935 WPA was set up as a substitute for FERA to provide work relief, not through the device of grants, but by outright federal expenditure. Direct

[1] This statement is supported by descriptions of FERA by V. O. Key, *The Administration of Federal Grants to States* (Public Administration Service, 1937), pp. 349-53; Bitterman, *State and Federal Grants-in-Aid,* pp. 298-304; E. A. Williams, *Federal Aid for Relief* (Columbia University Press, 1939), Ch. V, as well as by Congressional Hearings. Key concludes (p. 351) that "the experience of FERA in attempting to fix the amount of the state contribution by administrative discretion indicates that whenever feasible the matching requirement should be fixed by statute rather than by administrative discretion". Williams examines the "allocation problems of the FERA" in detail and remarks (pp. 202-3): "Indeed, the question of state and local contributions was a constant thorn in the side of the FERA. In some instances, state and local governments made reasonable attempts to produce funds; in other states, however, there were continual attempts to unload the entire burden of emergency relief upon the federal agency. . . . The result, of course, was bickering between the FERA and certain states, accompanied by threats upon the part of the FERA to withhold all federal funds or to assume direct control of relief if suitable state action were not forthcoming."

relief, i.e., general assistance, was thrown back to state and local governments, though not entirely: by the Social Security Act the federal government gave assistance to the states in providing for certain *categories* of unemployables – the aged poor, dependent children, and the blind. It set up also two insurance systems for employables: one, operated entirely by the federal government, provided old age insurance; the other, operated on a federal-state basis, provided unemployment insurance which was expected to become the first line of defense against depression. Two points to hold in mind are: the insurance schemes have left uncovered a considerable number of employables who must, therefore, if they fall in need, rely upon private charity or an assistance program; general, as distinct from categorical assistance, is entirely a state-local responsibility.

2 Importance of the Assistance Program

In December 1950, 2,786,000 persons were receiving old age assistance, 1,661,000 children in 651,000 families aid to dependent children, 97,500 persons aid to the blind, and 413,000 persons general assistance. Thus over 3,947,000 persons were on public assistance in a year of general prosperity, and total governmental payments for them in 1950 were $2,624,200,000. In future years growth in the number entitled to benefits under OASI, extension of the coverage of OASI and of unemployment insurance, together with liberalization of benefits, may be expected to reduce the number of recipients of public assistance. But public assistance seems likely to remain an important part of the welfare program of government, and, in terms of expenditure, an important element in the system of federal grants.

At present the federal government helps state and local governments care for needy persons who are too old, too young, or too handicapped by blindness to look out for themselves. Federal grants set ceilings, but no floor, on the payment per recipient the federal government will share with the state-local governments. For the needy aged and the blind, it will reimburse three-quarters of the first $20 of the average monthly payment plus half of the remainder, up to a maximum of $50 per month to a recipient; it pays also half the cost of administration. For dependent children the federal grant is three-quarters of the first $12 of the average monthly payment to one child and half of the remainder, except that state-local expenditures over $27 per month for the first child and $18 for each subsequent child are not to count in reckoning the grant; it pays also half the cost of administration. Except for these limits per recipient, the federal obligation is not restricted. The categorical grants are open-end and their total annual amount is determined by state-local decisions concerning eligibility and payments.

EFFECTIVE PERCENTAGES OF PAYMENT FROM FEDERAL FUNDS, 1950

	Average, Continental U.S.	High	Low
Old age assistance	53.7	73.2 (Mississippi)	38.9 (Colorado)
Aid to dependent children	46.3	72.8 (Alabama)	30.7 (Massachusetts)
Aid to blind	50.9	71.6 (Kentucky)	34.7 (California)

Source: *Social Security Bulletin, September* 1951, p. 52.

3 CYCLICAL BEHAVIOR

Total governmental payments (and federal grants) for these three categorical programs grew steadily from $218 million in 1936 to $2,066 million in 1950 (Table 16). The slight decline in aid to dependent children between 1942 and 1945 was much more than offset by increases in the other payments. Sensitivity to changes in general business conditions is not apparent.

The behavior of the payments series, however, conceals variability in the number of recipients (Table 17 and especially Chart 5). Recipients of old age assistance declined from a peak of 2,254,000 in June 1942 to 2,033,000 in August 1945, or 10 percent. The number of children receiving aid for dependent children fell from a peak of 955,000 in February

Table 16

Categorical Assistance, Average Monthly Payments per Recipient and Total Payments by Program, 1936-1950

	Average Monthly Payment per Recipient* (dollars)			Total Payments (thousands of dollars)			
		AID TO			AID TO		
	Old age assistance	*Dependent children (per family)*	*Blind*	*Old age assistance*	*Dependent children (per family)*	*Blind*	TOTAL
1936	18.79	29.82	26.11	155,241	49,654	12,813	217,708
1937	19.46	31.46	27:20	310,442	70,451	16,171	397,064
1938	19.56	31.96	25.22	392,384	97,442	18,958	509,784
1939	19.30	31.77	25.44	430,480	114,949	20,752	566,181
1940	20.26	32.38	35.38	474,952	133,243	21,826	630,021
1941	21.27	33.62	25.82	541,519	153,153	22,901	717,573
1942	23.37	36.25	26.54	595,152	158,435	24,660	768,247
1943	26.66	41.57	27.95	653,171	140,942	25,143	819,256
1944	28.43	45.58	29.31	693,338	135,015	25,342	853,695
1945	30.88	52.05	33.52	726,550	149,667	26,557	902,774
1946	35.31	62.23	36.67	822,061	208,857	30,748	1,061,666
1947	37.42	63.01	39.58	989,720	294,961	36,252	1,320,933
1948	42.02	71.88	43.54	1,132,604	364,160	41,382	1,538,146
1949	44.76	74.19	46.11	1,380,398	475,361	48,532	1,904,290
1950	43.09	71.44	45.99	1,461,836	551,627	52,697	2,066,160

Data through 1942 cover only continental United States; thereafter include Alaska and Hawaii. Programs administered without federal participation included.

* December data.

Source: *Social Security Bulletins.*

Table 17

Public Assistance Recipients under the Social Security Act, Monthly, 1936-1950 (thousands)

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
				OLD AGE ASSISTANCE								
1936		247	294	471	563	604	786	804	897	971	1,033	1,105
1937	1,148	1,198	1,254	1,294	1,325	1,291	1,393	1,434	1,469	1,505	1,543	1,579
1938	1,602	1,626	1,648	1,665	1,680	1,659	1,710	1,719	1,734	1,638	1,765	1,779
1939	1,790	1,802	1,816	1,833	1,835	1,845	1,861	1,874	1,887	1,897	1,906	1,912
1940	1,924	1,929	1,935	1,944	1,956	1,970	1,990	2,005	2,020	2,037	2,054	2,070
1941	2,078	2,085	2,111	2,131	2,152	2,170	2,185	2,198	2,208	2,217	2,228	2,238
1942	2,243	2,245	2,249	2,249	2,251	2,254	2,252	2,251	2,249	2,245	2,237	2,230
1943	2,217	2,205	2,195	2,184	2,173	2,170	2,165	2,164	2,159	2,158	2,155	2,149
1944	2,137	2,123	2,114	2,105	2,096	2,088	2,081	2,076	2,072	2,070	2,068	2,066
1945	2,059	2,053	2,049	2,044	2,041	2,038	2,035	2,033	2,035	2,040	2,047	2,056
1946	2,059	2,063	2,071	2,088	2,099	2,108	2,117	2,127	2,135	2,156	2,175	2,196
1947	2,213	2,228	2,243	2,256	2,260	2,271	2,280	2,289	2,298	2,315	2,324	2,332
1948	2,339	2,341	2,345	2,352	2,362	2,368	2,407	2,429	2,447	2,469	2,482	2,498
1949	2,512	2,528	2,553	2,582	2,606	2,626	2,643	2,661	2,680	2,698	2,716	2,736
1950	2,749	2,761	2,760	2,768	2,782	2,790	2,797	2,805	2,809	2,799	2,794	2,786
				AID TO DEPENDENT CHILDREN (number of children)								
1936		69	70	142	152	175	223	215	234	267	277	285
1937	300	310	325	341	407	422	394	453	481	495	508	527
1938	541	558	573	585	594	603	606	620	629	634	642	654
1939	670	687	690	684	692	718	720	720	722	722	723	730
1940	754	763	775	785	793	802	811	821	829	836	848	865
1941	883	899	910	917	919	917	910	906	901	920	920	935
1942	948	955	949	947	952	943	931	921	913	893	873	843
1943	823	808	789	773	757	740	722	709	698	687	677	671
1944	672	667	663	660	656	651	641	636	635	633	634	639
1945	642	644	646	646	647	647	644	647	658	669	684	701
1946	717	734	752	772	787	799	806	817	829	844	862	885
1947	906	930	957	980	997	1,009	1,018	1,028	1,037	1,048	1,046	1,060
1948	1,079	1,096	1,116	1,133	1,146	1,146	1,145	1,152	1,160	1,176	1,190	1,214
1949	1,240	1,267	1,301	1,328	1,349	1,366	1,382	1,402	1,423	1,454	1,486	1,521
1950	1,550	1,581	1,612	1,629	1,651	1,660	1,658	1,663	1,661	1,668	1,653	1,661

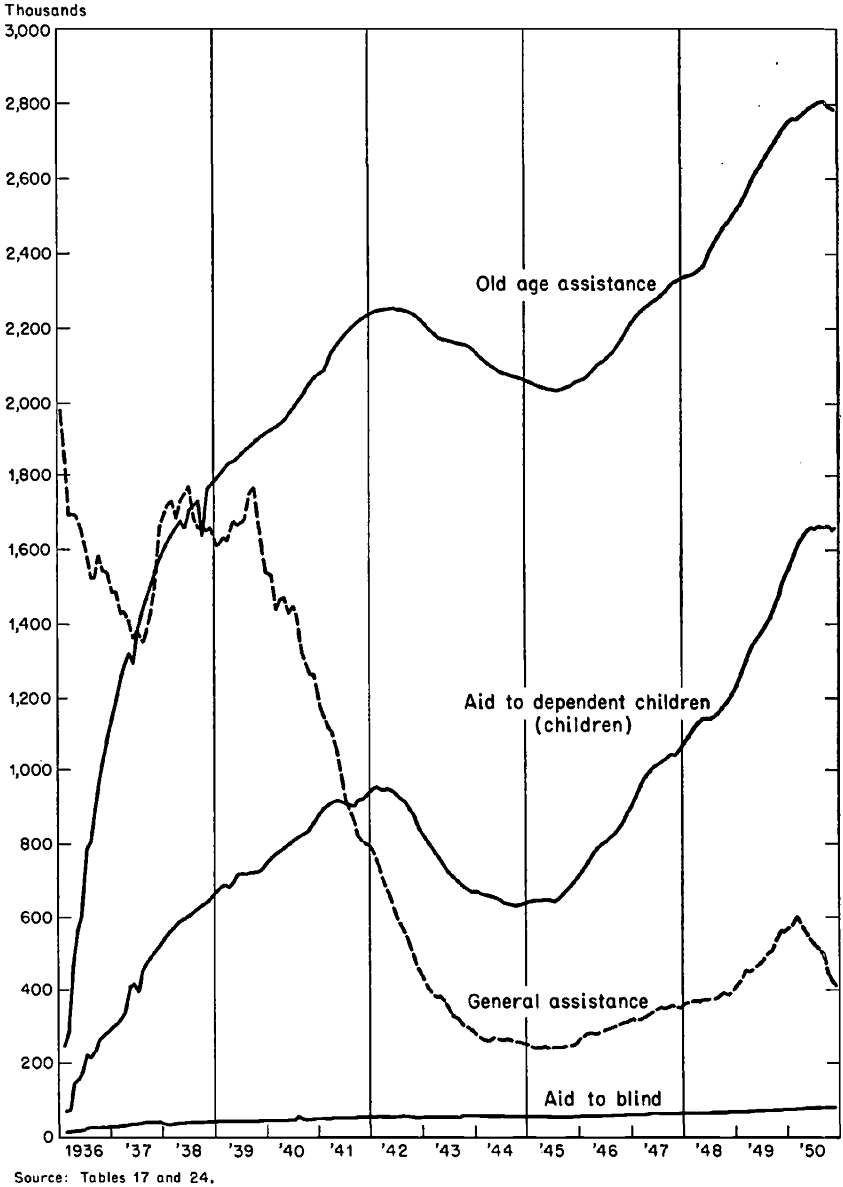
AID TO THE BLIND

1936		12	13	16	17	18	26	27	27	28	28	29
1937	29	30	31	32	34	35	37	39	40	41	43	44
1938	34	35	36	37	38	39	40	40	41	41	42	43
1939	43	44	44	44	44	45	45	45	45	45	46	46
1940	46	46	46	47	47	48	48	58	48	49	49	49
1941	49	49	49	50	50	50	50	50	50	52	52	53
1942	53	53	54	54	54	54	54	55	55	55	54	55
1943	55	54	54	54	54	54	54	54	53	60	59	59
1944	59	59	58	58	58	58	57	57	57	57	56	56
1945	56	56	56	56	56	55	55	55	55	55	55	56
1946	56	56	56	57	57	58	58	58	59	59	59	60
1947	60	60	61	61	62	62	62	63	63	63	63	64
1948	64	64	65	65	66	66	67	67	67	67	68	68
1949	68	69	69	70	71	71	72	72	73	73	74	74
1950	75	75	76	76	77	77	77	78	78	79	79	79

Source: 81st Congress, 1st Session, House Hearings before the Ways and Means Committee, *Social Security Act Amendments of 1949*, p. 42, and *Social Security Bulletins*.

Chart 5

Number of Recipients of Old Age Assistance, Aid to Dependent Children (children), Aid to the Blind, General Assistance (corrected for seasonal variation), by Months, 1936–1950



Source: Tables 17 and 24.

1942 to 633,000 in October 1944, or 44 percent. The blind receiving assistance reached a peak of 60,000 in October 1943, then declined to 55,000 in June 1945, 8 percent. From these lows in 1944-45 the number of recipients turned sharply upward once more. The number receiving old age assistance reached 2,809,000 in September 1950 – a rise of 38 percent from the low of August 1945. The number of dependent children receiving aid rose by October 1950 to 1,668,000, 164 percent, while the blind receiving aid rose by December 1950 to 79,000, 44 percent. It appears, therefore, that a shortage of manpower, high money earnings, and generous government allowances to dependents of servicemen during the war reduced somewhat the number on categorical assistance. Some were added to the labor force. After V-J Day, despite continuance of prosperity, these marginal workers – persons over 65 years and mothers with dependent children – dropped, or were dropped, out of the labor force, and as servicemen were demobilized their dependents shifted to public assistance programs.

The reason total payments do not disclose this war and postwar variation is that the change in number was offset by the increase in the average payment per recipient which rose sharply after 1941 and still more sharply after 1945, reflecting the rise in prices as well as relative ease in state-local budgets.[2]

The conclusion to draw from the record appears to be that payments for categorical assistance, particularly for old age assistance, and aid to the blind have little built-in flexibility. Since 1935 they have risen steadily and it might perhaps be assumed that the rise will continue, depending on such factors as the number over 65 years and insurance coverage, not

[2] Another factor responsible for some of the rise was the more generous federal participation in 1939, 1946, and 1948. In 1939 the federal government raised the maximum payment per recipient for which it would reimburse to the extent of half from $30 to $40 monthly in the case of old age assistance and aid to the blind. The basis for grants to dependent children was changed from $1 for each $2, within ceilings of $18 for the first child and $12 for each additional child, to a 50-50 basis. In 1946 the federal share of payments to recipients of old age assistance and aid to the blind was increased by providing grants of two-thirds of the first $15 of the average monthly payment plus half of the remainder up to a ceiling of $45. For dependent children the federal share became two-thirds of the first $9 of the average payment per child plus half of the remainder within maximums of $24 for the first child and $15 for each additional child. In 1948 the federal government agreed to provide three-fourths of the first $20 of the average monthly payment plus half of the remainder within maximums of $50 for old age assistance and the blind, and three-quarters of the first $12 of the average payment per dependent child plus half of the remainder within maximums of $27 for the first child and $18 for each additional child.

upon fluctuations in business activity. But the record needs to be supplemented and interpreted in the light of other circumstances. For one thing, until 1941 the categorical program was new, and growth was to be expected. The states always had a backlog of pending applicants who were held off because state-local funds were lacking. The effect of any moderate improvement in economic conditions was merely to diminish the backlog without decreasing total payments. A second factor is that the period after 1941 was unusual in a different way. State-local finances were prosperous. As the rise in prices put some squeeze upon recipients, the average payment was raised and this more than offset the decline in recipients. One may conclude that the average payment is sensitive to upward changes in the price level, a conclusion supported by the very nature of subsistence payments. One may not safely conclude that the average payment is sensitive to a decline in prices during depression. The historical trend toward higher welfare standards and the belief that subsistence payments should be maintained will operate against it. Depression would, to be sure, bring an increase in recipients and, therefore, a heavier financial burden upon state-local governments. This pressure, if prolonged, might force a decline in average payments.

Balancing all considerations, some of which are imponderable, it seems likely that payments for categorical services on the present basis will demonstrate only slight built-in flexibility. In prosperity a modest decline in recipients, and therefore in total payments, is likely to be offset by larger average payments attributable to prosperity and to a rise in living costs; in a severe and long depression an increase in recipients and therefore in total payments will encounter the obstacle of a weakened state-local fiscal capacity. A mild depression may not seriously strain state-local finances, and some upward flexibility in payments can be expected.

Although the present system of categorical assistance is unlikely to show much built-in flexibility, it could be altered so as to introduce some flexibility. Alteration is, moreover, worthy of examination because, in the opinion of many observers, the present system is defective in several respects. These defects, which are not revealed in the over-all examination given above, will be surveyed briefly in order to find a basis from which revision, particularly of federal grants, might be appraised.

4 Defects of Categorical Grants

One of the most serious charges made against the present system of categorical grants is that it has distorted state budgets. The 'distortions' are both interstate and intrastate. Interstate distortion occurs when some states have too many eligible recipients, or draw disproportionally large amounts in grants, as compared with other states; and conversely when some states have too few recipients and draw too little as grants. Intrastate distortion occurs when a state spends disproportionally on these functions compared with other functions. In a federal nation, heterogeneous in standards, customs, and wealth, uniformity in such matters would not be expected. The relevant issue is the degree to which the diversity is a matter for federal concern.

Interstate Differences in Eligibility: The Social Security Act specifies certain conditions for the receipt of grants, e.g., age, residence, etc., but the federal government has no voice in defining need and hence no control over the number declared eligible. This is a matter for state determination; as a result, the relative number of recipients varies widely (Table 18 and Chart 6). For example, the proportion per 1,000 of the population 65 and older receiving old age assistance in December 1948 ranged from 791 in Louisiana and 593 in Oklahoma to 58 in Delaware and 67 in New Jersey. Some tendency exists for the 'rich' states, those with higher than average per capita income, to have a low recipient rate, and for 'poor' states, those with lower than average per capita income, to have a high one, but exceptions are numerous.[3] It seems certain that a considerable part of this variation arises from differences in definition and appraisal of need, as well as from differences in need itself. The Advisory Council on Social Security to the Senate Committee on Finance has recently suggested that "a special investigation of this matter is worthy of consideration".[4]

Interstate Variation in Average Payments: Here and in subsequent discussion average payments per recipient will be used as a convenient measure of the extent to which assistance needs are being met. However, payments to recipients are often partial. If, for example, state authorities use a minimum budget of $80 monthly as a starting point, deductions will be made of an applicant's income from such sources as OASI and free use of a house. If these amount to $60, only the unmet need, $20 monthly, would

[3] The rank correlation coefficient between the recipient rate for old age assistance and per capita income (Table 18) is –0.58; for aid to dependent children it is –0.39.

[4] 80th Congress, 2nd Session, *Senate Document 204,* Public Assistance p. 5. Eveline M. Burns describes the following case: "In June, 1942, 4 old-age assistance agencies in each of the 48 states and the District of Columbia were presented with a hypothetical but typical case, and asked whether under their own rules and regulations, they would regard the applicant as needy and therefore eligible for aid. Of the 125 agencies in 44 states and the District of Columbia who replied, 57 would have considered the applicant ineligible because not needy, while 68 would have considered him eligible. In 15 (mostly eastern) states and the District of Columbia he would have been ineligible; in 20 (mostly western) states he would have been eligible; and in 9 states he would have been eligible in some areas and ineligible in others." *The American Social Security System* (Houghton Mifflin, 1949), p. 299.

Table 18

Recipient Rates for Old Age Assistance per 1,000 Persons 65 and Older, and for Aid to Dependent Children per 1,000 Persons Under 18 Years, December 1948

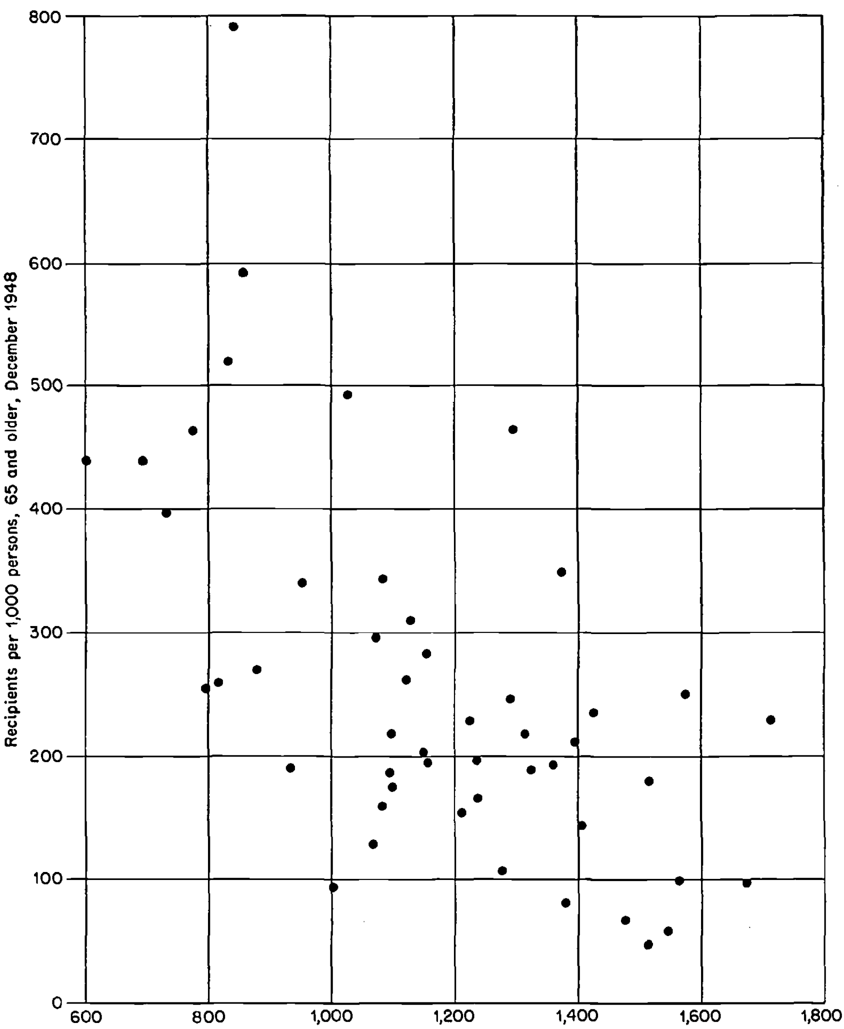
Rank in per Capita Income 1945-47		Old Age Assistance		Aid to Dependent Children	
		Rate	*Rank*	*Rate*	*Rank*
1	Nevada	230	(23)	2	(49)
2	New York	97	(44)	29	(16)
3	California	251	(20)	15	(42)
4	Connecticut	99	(43)	13	(47)
5	Delaware	58	(48)	14	(44)
6	Illinois	180	(35)	24	(22)
7	District of Columbia	47	(49)	20	(32)
8	New Jersey	67	(47)	10	(48)
9	Montana	236	(22)	29	(17)
10	Rhode Island	143	(40)	34	(12)
11	Massachusetts	212	(27)	20	(31)
12	Maryland	81	(46)	24	(23)
13	Washington	349	(10)	29	(15)
14	Ohio	193	(31)	13	(46)
15	North Dakota	189	(33)	22	(25)
16	Michigan	218	(26)	26	(21)
17	Colorado	464	(5)	34	(10)
18	Wyoming	247	(21)	14	(45)
19	Pennsylvania	107	(42)	34	(11)
20	Wisconsin	166	(37)	19	(37)
21	Oregon	197	(29)	16	(40)
22	South Dakota	229	(24)	22	(24)
23	Indiana	154	(39)	18	(38)
24	Nebraska	195	(30)	19	(36)
25	Idaho	284	(15)	26	(20)
26	Kansas	203	(28)	21	(28)
27	Missouri	310	(13)	47	(5)
28	Utah	263	(17)	33	(13)
29	Vermont	175	(36)	20	(35)
30	Minnesota	219	(25)	20	(34)
31	Iowa	187	(34)	15	(43)
32	Maine	159	(38)	28	(18)
33	Florida	344	(11)	61	(2)
34	Arizona	296	(14)	31	(14)
35	New Hampshire	129	(41)	21	(30)
36	Texas	493	(4)	16	(39)
37	Virginia	94	(45)	15	(41)
38	New Mexico	340	(12)	49	(4)
39	West Virginia	190	(32)	43	(6)
40	Tennessee	270	(16)	39	(7)
41	Oklahoma	593	(2)	73	(1)
42	Louisiana	791	(1)	50	(3)
43	Georgia	519	(3)	21	(29)
44	North Carolina	259	(18)	20	(33)
45	Kentucky	255	(19)	38	(8)
46	Alabama	463	(6)	28	(19)
47	South Carolina	397	(9)	22	(26)
48	Arkansas	439	(8)	35	(9)
49	Mississippi	439	(7)	22	(27)
	Average	228		26	

Source: *Social Security Act Amendments of 1949*, p. 56. For per capita income see Table 19.

The states are listed from high to low in terms of average per capita income 1945-47.

Chart 6

Recipient Rates for Old Age Assistance per 1,000 Persons 65 and Older, December 1948, and Per Capita Income, 1945-1947, by States



Source: Tables 18 and 19.

be the assistance payment. One state might conceivably have a lower average payment because a larger proportion of its recipients have income from other sources or because living costs are different. No definition of a 'satisfactory' minimum level of payments is offered here, although comparisons with the average level for the nation are made. Differences in living costs from state to state, which may be another factor affecting the level of payments, are disregarded. The reasons are that a satisfactory method of measuring and allowing for such differences has not been devised and that the differences among states appear to be moderate.[5]

Average payments tend to be higher in richer and lower in poorer states (the rank coefficient is +.61; Table 19 and Chart 7), although a few 'poor' states, notably Louisiana and Oklahoma, make relatively large average payments for old age assistance, and a few 'rich' states, notably Delaware and Maryland, make relatively small payments. In terms of average payment ability to pay is apparently decisive as against need, while in recipient rates need is apparently more influential than ability to pay. A similar situation exists also for aid to dependent children and the blind. Federal grants have, it appears, allowed a wide spread to prevail in these payments which are subject to a means test.

Interstate Differences in Grants: Expenditures per inhabitant for public assistance from federal funds 1936-48 vary widely from state to state and a rank correlation of these figures with per capita income 1945-47 discloses no clear pattern (the coefficient is +.21; Table 20). Of the pair of states receiving the highest amounts, Colorado and Oklahoma, and of the pair receiving the lowest, Delaware and Virginia, one of each is 'poor' and one is 'rich'. If the states are split into those above and those below average per capita income in 1945-47, of the 30 states *below* average in income 14 received lower than average federal grants per inhabitant 1936-48, and 16 higher. Of the 19 states *above* average in income, 9 received lower than average grants, and 10 higher. Some 'rich' states, Delaware, New Jersey, Maryland, Connecticut, New York, have received relatively small grants and have a relatively low recipient rate (Table 18), and some 'poor' states, Oklahoma, Utah, Missouri, Arizona, have received large grants and have a relatively high recipient rate. Conversely, some 'rich' states such as Colo-

[5] See Hansen and Perloff, *State and Local Finance in the National Economy* (Norton, 1944), pp. 31-3. The Bureau of Labor Statistics figures relate mostly to urban areas. Figures showing the cost of living for 34 cities in 25 states are given in the *Monthly Labor Review,* February 1948. In June 1947 the estimated cost of a city worker's family budget ranged from $3,004 in New Orleans to $3,458 in Washington, D. C. This range is much smaller, both absolutely and relatively, than that in state per capita incomes (cf. Table 19). Even the rural-urban differences in living costs appear to be small relative to inter-state income differences. For example, Nathan Koffsky calculated that in 1945 a farm budget cost 18 percent more and a city budget 8 percent more at city prices than at farm prices (*Studies in Income and Wealth, Volume Eleven,* p. 175). For December 1948 the Department of Public Assistance of Pennsylvania found that the costs per month for five "common items of need (food, clothing, incidentals, shelter maintenance) averaged 8 percent higher in 4 urban than in 4 rural counties for a four-person family and 12 percent higher for a male living alone.

Table 19

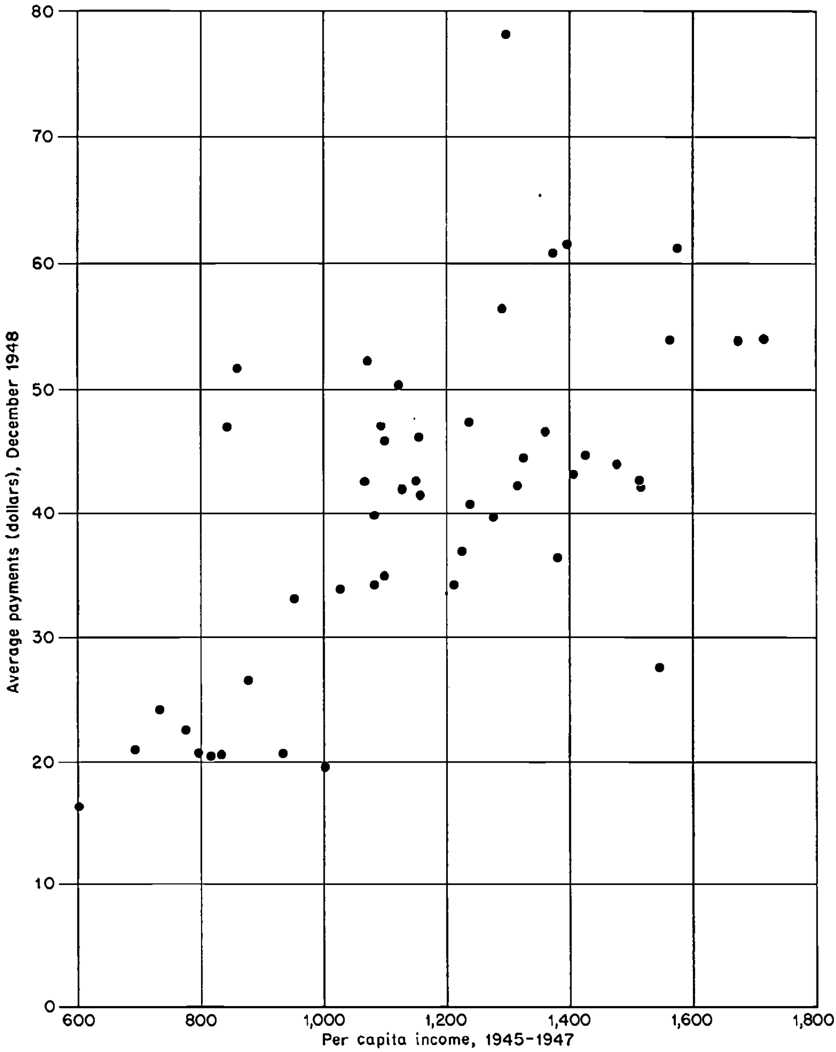
Average Payment to Recipients of Old Age Assistance by States, December 1948

Rank in per Capita Income	Per Capita Income 1945-47		Average Payment	Rank in Average Payment	Rank in per Capita Income	Per Capita Income 1945-47		Average Payment	Rank in Average Payment
1	$1,715	Nevada	$53.97	(6)	26	$1,149	Kansas	$42.72	(22)
2	1,673	New York	53.84	(8)	27	1,127	Missouri	41.97	(27)
3	1,575	California	61.16	(3)	28	1,121	Utah	50.38	(11)
4	1,563	Connecticut	53.93	(7)	29	1,099	Vermont	34.94	(34)
5	1,545	Delaware	27.58	(39)	30	1,098	Minnesota	45.95	(17)
6	1,515	Illinois	42.18	(26)	31	1,095	Iowa	47.16	(13)
7	1,513	District of Columbia	42.72	(23)	32	1,082	Maine	34.23	(35)
					33	1,082	Florida	39.80	(30)
8	1,476	New Jersey	44.12	(20)	34	1,070	Arizona	52.24	(9)
9	1,426	Montana	44.84	(18)	35	1,067	New Hampshire	42.68	(24)
10	1,406	Rhode Island	43.21	(21)	36	1,026	Texas	33.90	(37)
11	1,396	Massachusetts	61.48	(2)	37	1,002	Virginia	19.58	(48)
12	1,380	Maryland	36.40	(33)	38	952	New Mexico	33.10	(38)
13	1,373	Washington	60.85	(4)	39	933	West Virginia	20.68	(45)
14	1,360	Ohio	46.60	(15)	40	878	Tennessee	26.56	(40)
15	1,324	North Dakota	44.61	(19)	41	858	Oklahoma	51.69	(10)
16	1,315	Michigan	42.30	(25)	42	842	Louisiana	47.02	(14)
17	1,296	Colorado	78.18	(1)	43	832	Georgia	20.58	(46)
18	1,290	Wyoming	56.40	(5)	44	816	North Carolina	20.44	(47)
19	1,276	Pennsylvania	39.70	(31)	45	797	Kentucky	20.72	(44)
20	1,237	Wisconsin	40.71	(29)	46	776	Alabama	22.58	(42)
21	1,236	Oregon	47.46	(12)	47	732	South Carolina	24.18	(41)
22	1,225	South Dakota	36.94	(32)	48	693	Arkansas	20.99	(43)
23	1,211	Indiana	34.21	(36)	49	601	Mississippi	16.38	(49)
24	1,157	Nebraska	41.55	(28)					
25	1,154	Idaho	46.28	(16)		1,238	United States	42.02	

Source: *Social Security Act Amendments of 1949*, pp. 60, 461; per capita income from Federal Security Agency.

Chart 7

Average Payments for Old Age Assistance, December 1948, and Per Capita Income, 1945–1947, by States



Source: Table 19.

rado, Washington, California, Montana have received large grants and *also* have a high recipient rate, and 'poor' states such as North Carolina, Mississippi, South Carolina, Alabama, Kentucky, Georgia, Arkansas have received small grants despite a high recipient rate. This is possible because the federal system of grants for old age assistance, the blind, and dependent children are open-end, have a high ceiling, and until 1946 had approxi-

Table 20

Public Assistance, Expenditure per Inhabitant from Federal Funds, 1936-1948

Rank in per Capita Income 1945-47		Average Payment	Rank	Rank in per Capita Income 1945-47		Average Payment	Rank
1	Nevada	$42.08	(19)	25	Idaho	$53.43	(10)
2	New York	25.78	(34)	26	Kansas	38.52	(26)
3	California	62.07	(5)	27	Missouri	55.87	(8)
4	Connecticut	24.00	(37)	28	Utah	63.32	(4)
5	Delaware	13.47	(48)	29	Vermont	31.33	(31)
6	Illinois	41.68	(20)	30	Minnesota	51.98	(11)
7	District of Columbia	13.50	(47)	31	Iowa	44.20	(16)
				32	Maine	40.03	(23)
8	New Jersey	16.77	(44)	33	Florida	46.15	(13)
9	Montana	57.10	(6)	34	Arizona	56.15	(7)
10	Rhode Island	27.65	(33)	35	New Hampshire	32.12	(30)
11	Massachusetts	55.71	(9)	36	Texas	44.82	(15)
12	Maryland	21.97	(40)	37	Virginia	8.60	(49)
13	Washington	84.04	(3)	38	New Mexico	35.19	(29)
14	Ohio	43.27	(17)	39	West Virginia	25.56	(35)
15	North Dakota	36.85	(28)	40	Tennessee	25.44	(36)
16	Michigan	40.11	(22)	41	Oklahoma	94.22	(2)
17	Colorado	109.03	(1)	42	Louisiana	40.92	(21)
18	Wyoming	39.89	(24)	43	Georgia	22.63	(39)
19	Pennsylvania	29.24	(32)	44	North Carolina	14.98	(46)
20	Wisconsin	39.85	(25)	45	Kentucky	20.67	(41)
21	Oregon	42.27	(18)	46	Alabama	18.49	(42)
22	South Dakota	45.80	(14)	47	South Carolina	17.44	(43)
23	Indiana	37.40	(27)	48	Arkansas	23.15	(38)
24	Nebraska	47.96	(12)	49	Mississippi	16.45	(45)

Source: *Social Security Act Amendments of 1949*, pp. 53, 461. For per capita income see Table 19.

mately equal matching ratios;[6] i.e., federal grants are directly related to the amount of state-local expenditures.

[6] The changes in 1946 and 1948, which increased the federal share to three-quarters for the first $20 of payments for old age assistance and aid to the blind, and for the first $12 of payments for dependent children, apply to the 'rich' states as well as to the 'poor'. Compared with an outright system of variable grants based on per capita income, the new basis is favorable to the 'rich' states. Nevertheless, the federal share of expenditure for categorical assistance has gone well above 50 percent for most of the 'poor' states (those below average in per capita income, 1945-47).

Federal % of Expenditure for Categorical Assistance, Dec. 1948	Number of States *'Poor'*	*'Rich'*
35-39		1
40-44		4
45-49	3	3
50-54	2	6
55-59	7	4
60-64	7	1
65-69	2	
70-74	9	
Total	30	19

Source: *Social Security Act Amendments of 1949*, p. 30.

Interstate Differences in Effort: Is the relatively low level of payments by many of the poorer states attributable to their poverty or to a lack of fiscal effort? In this study per capita income is taken as a measure of the richness or poverty of a state and the percentage of income payments devoted to a major function as a measure of fiscal effort.[7] Obviously, however, the same percentage of income payments will produce a relatively larger or smaller sum accordingly as a state is 'rich' or 'poor'. For example, an amount equal to approximately 0.27 percent of income (in addition to federal grants) allowed New York, a 'rich' state, to make average payments in June 1947 of $46.99 to recipients of old age assistance, $52.28 to recipients of assistance to the blind, and $98.02 to families in receipt of aid to dependent children (Table 21). All these were well above the averages for the nation – $36.04, $37.91, and $61.68 respectively – yet in terms of income payments the 0.27 percent for New York was below the national figure, 0.36 percent. The situation of New York in this respect is similar to 10 of the 19 states which are above average in per capita income (Table 21). And as long as the actual payments of a state to recipients of a welfare program are not less than the national average, the fact that its fiscal effort falls below the average fiscal effort of the nation may be of little moment.

When, however, the actual payments of a state are *less* than the national average, the question whether its fiscal effort falls below average is worth consideration. Fiscal effort by 'poor' states ties in with the question whether the federal government, through grants, should bear a larger share of the cost of their public assistance programs. A reasonable prior condition to the assumption of a larger federal share may be that a poor state make a fiscal effort equal to that of the states as a whole.

When we examine the fiscal effort of the 'poor' states with respect to categorical assistance, we find a wide spread in percentage expenditure: 14 of the 30 states that were below average in terms of per capita income 1945-47 spent less in fiscal 1947 as a percentage of 1946 income payments than the national average, 0.36 percent (Table 22). If these were to increase their fiscal effort by spending 0.36 percent, the average payment

[7] See Selma J. Mushkin, *Determination of State-Local Fiscal Capacity* (statement before the Research Section of the National Association of Tax Administrators, June 24, 1949), for a summary review and appraisal of these measures. John L. Fulmer shows that "89 percent of the variation in per capita income between states in 1940 was associated" with the percentage of the labor force in agriculture, forestry, and fisheries, percentage of total population employed, percentage of total population Negro, and median years of schooling of males 25 years or older. The percentage of total population employed was the most important of the four factors, the percentage of total population Negro the least (*Southern Economic Journal,* Jan., 1950).

e 21

ation of Fiscal Effort* to Payments for Categorical Assistance, 1947

	Expenditure for Categorical Assistance, Fiscal 1947, as % of 1946 Income Payments (1)	Average Payments, June 1947			Hypothetical Av. Payment for Old Age Assistance, Assuming Av. Fiscal Effort*[a] (5)
		Aid to dependent children, per family (2)	*Aid to blind* (3)	*Old age assistance* (4)	
States above Average in Per Capita Income, 1945-47					
*Above Average in Fiscal Effort**					
Colorado	1.08	$68.59	$45.48	$65.11	
Washington	1.01	104.63	61.00	53.02	
Massachusetts	.56	95.58	51.46	50.60	
North Dakota	.45	74.90	37.72	39.45	
California	.44	101.47	62.84	52.61	
Montana	.42	67.22	40.25	37.80	
Wyoming	.40	86.37	52.28	48.72	
Michigan	.39	77.83	40.36	35.94	
Illinois	.36	78.63	41.20	39.57	
*Below Average in Fiscal Effort**					
Pennsylvania	.34	72.12	39.76	33.96	
Rhode Island	.30	77.47	41.25	39.66	
Ohio	.29	66.05	36.02	39.56	
New York	.27	98.02	52.28	46.99	
Nevada	.22	31.60	n.a.	47.47	
Connecticut	.21	93.06	40.34	43.87	
New Jersey	.11	78.49	42.60	40.76	
Maryland	.10	48.28	34.05	30.88	
District of Columbia	.09	74.26	42.21	40.07	
Delaware	.07	n.a.	28.48	22.66	
States below Average in Per Capita Income, 1945-47					
*Above Average in Fiscal Effort**					
Oklahoma	1.37	44.98	42.91	42.33	
Utah	.75	92.03	48.17	42.22	
Idaho	.60	78.45	46.68	41.71	
Arizona	.56	46.76	57.29	47.58	
Missouri	.53	33.46	30.00	35.05	
Nebraska	.48	81.23	40.51	40.27	
New Mexico	.48	48.54	39.14	35.85	
Florida	.45	35.34	38.01	36.59	
Maine	.44	89.87	34.31	34.21	
Minnesota	.43	55.84	44.52	37.07	
Oregon	.42	89.74	49.61	41.87	
Kansas	.42	70.70	39.91	34.74	
Texas	.42	41.73	31.52	28.92	
Louisiana	.41	45.58	29.84	24.28	
South Dakota	.39	46.03	30.04	32.42	
Iowa	.37	34.67	46.74	39.72	

(Table 21 concluded on page 48)

	Expenditure for Categorical Assistance, Fiscal 1947, as % of 1946 Income Payments (1)	Average Payments, June 1947 *Aid to dependent children, per family* (2)	*Aid to blind* (3)	*Old age assistance* (4)	Hypothetical Av. Payment for Old Age Assistance, Assuming Av. Fiscal Effort*[a] (5)
STATES BELOW AVERAGE IN PER CAPITA INCOME, 1945-47 *(concluded)*					
*Below Average in Fiscal Effort**					
New Hampshire	.35	$78.45	$39.70	$36.70	$37.74
Wisconsin	.34	86.37	36.55	36.00	38.12
Arkansas	.30	36.12	21.27	18.25	21.90
Mississippi	.29	26.43	23.87	17.32	21.50
Vermont	.25	46.34	36.88	30.81	44.37
Georgia	.25	35.30	20.42	17.04	24.54
Alabama	.24	31.48	20.00	17.54	26.31
Indiana	.23	42.49	32.31	30.33	47.47
Tennessee	.23	35.09	22.93	18.38	28.77
South Carolina	.23	27.60	23.98	20.23	31.66
Kentucky	.22	35.06	18.40	17.38	28.44
West Virginia	.19	28.90	18.06	15.08	28.57
North Carolina	.13	35.44	25.95	18.05	49.98
Virginia	.07	39.46	22.72	17.63	90.67
SUMMARY AVERAGES					
United States	.36	61.68	37.91	36.04	
States above Average in Per Capita Income, 1945-47					
Above average in fiscal effort* (9 states)	.57	83.91	48.07	46.98	
Below average in fiscal effort* (10 states)	.20	71.04	39.67	38.59	
All 'rich' states (19)	.37	77.48	43.87	42.56	
States below Average in Per Capita Income, 1945-47					
Above average in fiscal effort* (16 states)	.53	58.43	40.58	37.18	
Below average in fiscal effort* (14 states)	.24	41.75	25.93	22.20	37.15
All 'poor' states (30)	.39	50.65	33.74	30.19	

* Fiscal effort is measured by the ratio of expenditures for categorical assistance, fiscal 1947, to 1946 income payments (col. 1). Average fiscal effort was 0.36 percent.

[a] The calculation is for 'poor' states only, and it is crude since it is derived by increasing the figures of column 4 in the ratios that those of column 1 are to 0.36 percent.

Table 22

'Poor' and 'Rich' States According to Expenditure for Categorical Assistance Fiscal 1947 as Percentage of Income Payments 1946

Expenditure as % of Income Payments	Number of States 'Poor'	'Rich'
.06- .15	2	4
.16- .25	8	2
.26- .35	4	4
.36- .45	9	6
.46- .55	3	
.56- .65	2	1
.66- .75	1	
.76- .85		
.86- .95		
.96-1.05		1
1.06-1.15		1
1.16-1.25		
1.26-1.35		
1.36-1.45	1	
Total	30	19

per recipient for old age assistance of 6 would be above, and of 8 would still be below, the national average, $36.04 (Table 21, col. 5). The 8 are the poorest of the 'poor' states. They could not achieve the national average level of payments to recipients even if they made an average fiscal effort. Furthermore, the norm selected here can be criticized as too high on the ground that expenditure for old age assistance as a function is itself too large relative to other functions because of the stimulus of federal grants; this point is examined in the next section.

Intrastate Distortion: Another major criticism of categorical grants, especially those for old age assistance, is the distortion they are said to have brought into state budgets. Striking evidence of distortion has been prepared by the Council of State Governments. Comparison of payments for old age assistance, which receives federal aid, with those for general assistance, which does not receive federal aid, shows the ratios given in Table 23. At the extremes are Delaware and New York, which spent one and a fifth and one and two-fifths times as much for old age assistance as for general assistance, and Mississippi and Texas which spent 125 and 87 times as much. The Council, in a study prepared for the Hoover Commission, made a similar comparison between expenditures for all federally aided assistance programs and expenditures for general assistance. It found the same disparities. At the extremes are New York, which in 1946 spent 3 times as much for old age assistance, aid to the blind, and to dependent children as for general assistance, and Mississippi, which spent 189 times as much. The Council declared that "the imbalances can be explained in

Table 23

Ratios of Payments to Recipients of Old Age Assistance to Payments for General Assistance, July 1948

	Rank in per Capita Income 1945-47	Ratio	Rank		Rank in per Capita Income 1945-47	Ratio	Rank
1	Nevada	16.0	(16)	25	Kansas	7.4	(31)
2	New York	1.4	(47)	26	Missouri	10.3	(22)
3	California	7.7	(29)	27	Utah	4.8	(37)
4	Connecticut	5.1	(36)	28	Vermont	11.3	(19)
5	Delaware	1.2	(48)	29	Minnesota	9.8	(24)
6	Illinois	3.9	(40)	30	Iowa	25.2	(10)
7	New Jersey	2.8	(44)	31	Maine	4.7	(38)
8	Montana	12.3	(18)	32	Florida	32.7	(6)
9	Rhode Island	3.1	(42)	33	Arizona	8.5	(26)
10	Massachusetts	6.8	(33)	34	New Hampshire	6.7	(34)
11	Maryland	2.4	(45)	35	Texas	86.7	(2)
12	Washington	7.4	(30)	36	Virginia	3.8	(41)
13	Ohio	5.3	(35)	37	New Mexico	7.9	(28)
14	North Dakota	16.7	(14)	38	West Virginia	8.5	(27)
15	Michigan	3.1	(43)	39	Tennessee	50.8	(4)
16	Colorado	20.4	(13)	40	Oklahoma	57.1	(3)
17	Wyoming	10.6	(20)	41	Louisiana	9.3	(25)
18	Pennsylvania	2.4	(46)	42	Georgia	34.1	(5)
19	Wisconsin	10.1	(23)	43	North Carolina	16.0	(15)
20	Oregon	4.3	(39)	44	Kentucky	26.3	(9)
21	South Dakota	24.9	(11)	45	Alabama	12.6	(17)
22	Indiana	7.2	(32)	46	South Carolina	10.4	(21)
23	Nebraska	24.7	(12)	47	Arkansas	27.4	(8)
24	Idaho	28.5	(7)	48	Mississippi	125.4	(1)

Source: Council of State Governments, *Federal Grants to the States*, p. 159.

large part by the fact that States with relatively few tax resources distort their budgets to take advantage of national grants. By doing so, they are forced to neglect State programs for which no national matching exists."[8] The claim of neglect will be examined in detail for general assistance.

5 General Assistance: Its Present Position

Responsibility for general assistance lies at present with state-local governments, unsupported by federal grants. This is a catch-all program which covers not only unemployables, who are ineligible for categorical aid, but also employables who are outside the insurance programs. Obviously needy unemployables under 65 years of age and not blind fall upon general assistance. In addition, unemployment insurance excludes the jobs of 12 million wage earners; and covered workers may be unemployed because of illness or may receive inadequate benefits or exhaust their benefits. OASI, even after the expansion of 1950, covers only two-thirds of all civil-

[8] 81st Congress, 1st Session, *Senate Document 81*, p. 54.

ian jobs and its benefits are often insufficient to support the recipients. In all such instances employables and retired workers may be pushed upon public assistance. If a sharp line could be drawn between employables and unemployables, if all retired workers were covered adequately by OASI and all employables by unemployment insurance, the number of actual or potential recipients of public assistance, and particularly of general assistance, would be greatly reduced. But these are 'ifs', not facts. The number of recipients of general assistance, and state-local payments, have varied widely (Table 24, Chart 5). From a peak of 1,996,000 in February 1938, the number fell to 229,000 in August 1945; payments dropped from $46,700,000 in March 1939 to $6,600,000 in July 1945. From August 1945 to December 1949 the number increased 145 percent and payments more than quadrupled.

The situation with respect to general assistance is of importance in a cyclical study of grants because the number of recipients appears to be fairly sensitive to changes in business conditions. The figures corrected for seasonal variation (Table 24 B, and Chart 5) show that a low was reached in June-August 1937, then rose sharply to a peak in July 1938 (with one interruption in April). This low was just a month behind the peak of May 1937 selected as the standard reference date by the NBER, and the high was also just a month behind the trough in June 1938. The reconversion recession after February 1945 coincided with another low point although the number (corrected) of recipients remained almost unchanged until August. The recession starting in November 1948 is less clearly marked, although the increase in the rate of growth of recipients seems to reflect this factor. The rate of growth, which was over 5 percent 1947-48, became approximately 12 percent from December 1948 to December 1949. Some of the relative stability of the figures for categorical assistance is a reflection of the high variability of the figures for general assistance. The general assistance program is a shock absorber for a large number of persons in the event of depression. It is doubtful that many of the 'poor' states could stand the extra burden which a severe depression would bring.

Not only do the 'poor' states make very low average payments (Table 25) and a small fiscal effort;[9] even more important, the number of recipients of general assistance is disproportionately low in the 'poor' states. States with few recipients of general assistance are typically 'poor' (Maryland is a notable exception), and those with a high number are typically 'rich' (Louisiana, Maine, and Missouri are exceptions); the rank correlation coefficient between per capita income 1945-47 and the recipient rate

[9] In fiscal 1947 state and local expenditure for general assistance was 0.08 percent of income payments in 1946. But only 15 states exceeded this average effort, of which 9 had above average income.

Table 24

General Assistance, Number of Recipients and Expenditures, Monthly, 1936-1950

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
A NUMBER OF RECIPIENTS (thousands)												
1936	2,219	2,139	2,011	1,828	1,658	1,556	1,453	1,434	1,389	1,396	1,406	1,510
1937	1,662	1,726	1,684	1,550	1,382	1,277	1,257	1,271	1,265	1,270	1,368	1,626
1938	1,893	1,996	1,994	1,815	1,696	1,648	1,610	1,581	1,526	1,497	1,518	1,631
1939	1,772	1,844	1,850	1,724	1,644	1,568	1,539	1,583	1,665	1,628	1,559	1,558
1940	1,674	1,671	1,612	1,527	1,442	1,354	1,362	1,342	1,258	1,230	1,213	1,239
1941	1,257	1,230	1,210	1,153	1,038	934	876	859	818	796	782	798
1942	836	817	785	723	657	607	566	551	528	503	470	459
1943	445	429	417	395	374	354	325	312	304	297	291	292
1944	288	283	280	273	265	257	254	253	253	253	254	258
1945	259	258	258	251	237	234	231	229	232	239	242	256
1946	276	295	303	292	283	278	279	280	282	290	298	315
1947	336	345	344	339	338	335	334	333	332	335	340	356
1948	378	393	402	392	378	366	358	356	359	360	369	397
1949	433	461	491	476	465	461	461	475	479	497	543	562
1950	596	626	652	605	568	525	499	485	469	408	403	413
B NUMBER OF RECIPIENTS CORRECTED FOR SEASONAL VARIATION												
1936	1,981	1,844	1,690	1,693	1,692	1,655	1,597	1,526	1,526	1,586	1,545	1,541
1937	1,484	1,488	1,427	1,435	1,410	1,359	1,381	1,352	1,390	1,427	1,503	1,659
1938	1,690	1,721	1,734	1,681	1,731	1,753	1,769	1,682	1,659	1,663	1,650	1,664
1939	1,611	1,618	1,637	1,626	1,678	1,668	1,673	1,684	1,753	1,770	1,659	1,590
1940	1,536	1,533	1,439	1,468	1,471	1,425	1,449	1,413	1,324	1,295	1,264	1,264
1941	1,175	1,150	1,120	1,109	1,059	983	922	895	861	821	806	798
1942	789	771	734	695	670	639	596	574	556	513	480	454
1943	428	405	393	380	382	369	339	325	320	303	297	289
1944	277	267	264	262	270	268	262	266	266	258	259	255
1945	249	241	241	241	242	241	241	241	244	246	247	253
1946	265	276	281	281	280	284	291	295	297	305	310	312
1947	323	319	319	326	335	342	348	351	349	356	354	352
1948	363	364	372	370	371	373	373	375	378	391	384	394
1949	416	427	455	449	456	470	480	500	504	540	566	556
1950	573	580	604	571	557	536	520	511	494	443	420	409

C EXPENDITURES (millions of dollars)

1936	48.2	47.1	44.7	40.3	35.1	33.3	30.9	29.8	30.2	30.9	32.0	36.4
1937	38.0	39.0	39.9	35.7	30.6	28.2	29.0	30.0	30.3	30.7	34.0	41.2
1938	46.4	47.2	47.5	41.1	37.3	36.8	36.0	36.2	35.4	34.9	36.5	40.9
1939	43.7	45.0	46.7	41.3	39.4	37.2	36.3	38.3	38.7	38.8	38.4	38.8
1940	41.6	40.5	39.2	36.8	34.4	31.4	32.2	31.7	28.5	29.4	29.0	30.1
1941	30.6	28.9	38.8	26.3	23.3	20.6	19.8	19.6	18.5	18.6	18.4	19.5
1942	20.1	19.2	18.8	17.2	15.4	14.2	13.7	13.3	13.0	12.6	11.5	11.6
1943	10.9	10.4	11.2	10.6	9.6	9.3	8.5	8.1	8.1	8.1	7.9	8.1
1944	7.9	7.8	7.9	7.5	7.3	7.2	6.9	7.1	7.0	7.2	7.3	7.4
1945	7.5	7.2	7.5	7.0	6.9	6.8	6.6	6.8	6.9	7.5	7.7	8.4
1946	9.3	10.0	10.5	9.5	9.4	9.1	9.4	9.7	9.8	10.8	11.1	12.4
1947	13.4	13.6	13.7	13.7	13.6	13.2	13.5	13.4	13.5	14.1	14.1	15.2
1948	16.0	16.7	17.8	17.2	16.2	15.8	15.6	15.5	15.9	16.2	16.9	18.8
1949	n.a.	22.0	24.4	23.1	22.1	22.1	22.0	23.1	23.3	24.0	27.4	28.2
1950	29.2	30.8	33.2	29.5	26.4	24.2	22.7	22.1	21.1	18.5	18.5	19.3

Sources: *Social Security Yearbook* and *Social Security Bulletin.* Data through 1942 cover only continental United States; thereafter include Alaska and Hawaii. The number of recipients was seasonally adjusted by the National Bureau by means of a moving seasonal index. The index for 1949 and 1950, beginning January, is: 104, 108, 108, 106, 102, 98, 96, 95, 95, 92, 96, 101.

Table 25

General Assistance, Average Monthly Payment per Recipient, December 1948

Rank in per Capita Income 1945-47		Average Payment	Rank	Rank in per Capita Income 1945-47		Average Payment	Rank
1	Nevada	$20.48	(36)	23	Nebraska	$33.04	(27)
2	New York	71.85	(1)	24	Idaho	30.66	(28)
3	California	49.22	(11)	25	Kansas	46.12	(17)
4	Connecticut	47.77	(14)	26	Missouri	30.36	(29)
5	Delaware	34.93	(26)	27	Utah	56.36	(4)
6	Illinois	54.82	(6)	28	Minnesota	48.60	(12)
7	District of Columbia	47.71	(15)	29	Iowa	28.62	(31)
				30	Maine	41.32	(22)
8	New Jersey	57.89	(3)	31	Arizona	37.71	(24)
9	Montana	27.19	(33)	32	New Hampshire	44.09	(19)
10	Rhode Island	49.70	(10)	33	Virginia	22.35	(35)
11	Massachusetts	53.58	(7)	34	New Mexico	22.36	(34)
12	Maryland	43.38	(20)	35	West Virginia	14.88	(41)
13	Washington	58.06	(2)	36	Tennessee	13.49	(43)
14	Ohio	48.45	(13)	37	Louisiana	40.66	(23)
15	North Dakota	36.19	(25)	38	Georgia	17.02	(37)
16	Michigan	55.43	(5)	39	North Carolina	14.70	(42)
17	Colorado	43.24	(21)	40	Kentucky	15.75	(40)
18	Wyoming	50.81	(9)	41	Alabama	15.94	(38)
19	Pennsylvania	52.13	(8)	42	South Carolina	15.79	(39)
20	Wisconsin	44.86	(18)	43	Arkansas	12.37	(44)
21	Oregon	46.34	(16)	44	Mississippi	9.56	(45)
22	South Dakota	29.36	(30)		United States	43.54	

Source: *Social Security Act Amendments of 1949*, p. 60. Not computed for Florida, Texas, Vermont, or Oklahoma.

for December 1948 (Table 26 and Chart 8) is +0.51.[10] While some of the marked variation is attributable to circumstances peculiar to certain states, the conclusion seems warranted that in many of the poorer states the suppressed demand for general assistance would, in the event of depression, make itself felt.[11] In good times most recipients of general assistance

[10] The figures for grant-aided categorical assistance are a striking contrast. Table 18 and Chart 6 show that the recipient rate for old age assistance tends to be inverse to per capita income, the correlation for December 1948 being –0.58.

[11] The Advisory Committee on Social Security to the Senate Committee on Finance of the 80th Congress, 2nd Session, stated (*Senate Document 204*, pp. 6, 9): "Many persons who do not fall within the categories of the aged, the blind, or dependent children may be in dire need of public assistance. As now constituted, the Social Security Act ignores the needs of this group. In point of fact, the act has led some States to apply virtually all the State and local funds available for public assistance to the specific programs for which federal reimbursement is available, leaving little or no money for so-called general assistance. . . . Present case loads in general assistance and present expenditures for medical care reflect more nearly what States and localities are able and willing to spend than the actual need for these services. As long as the means to meet need are lacking, much need remains hidden. Few people apply for help that they know they cannot get."

Table 26

General Assistance, Number of Recipients per 100,000 Estimated Civilian Population, by States, December 1946-1948

	Rank in per Capita Income 1945-47	*1948*	*1947*	*1946*		*Rank in per Capita Income 1945-47*	*1948*	*1947*	*1946*
1	Nevada	524	297	300	22	Idaho	133	156	157
2	New York	918	997	738	23	Kansas	483	497	453
3	California	767	596	535	24	Missouri	849	765	892
4	Illinois	689	640	760	25	Utah	550	451	446
5	New Jersey	414	348	264	26	Minnesota	676	587	594
6	Montana	550	538	465	27	Iowa	415	357	504
7	Rhode Island	958	788	751	28	Maine	901	858	779
8	Massachusetts	798	718	660	29	Arizona	327	480	916
9	Maryland	252	240	929	30	New Hampshire	723	585	560
10	Washington	916	822	1,179	31	New Mexico	463	534	512
11	Ohio	831	742	671	32	West Virginia	311	335	524
12	North Dakota	346	317	299	33	Tennessee	146	129	n.a.
13	Michigan	1,154	980	918	34	Louisiana	799	480	447
14	Colorado	780	700	673	35	Georgia	210	220	180
15	Wyoming	363	308	347	36	North Carolina	218	186	176
16	Pennsylvania	477	516	576	37	Kentucky	226	n.a.	n.a.
17	Wisconsin	461	403	414	38	Alabama	253	239	198
18	Oregon	996	813	1,161	39	South Carolina	296	283	295
19	South Dakota	241	307	343	40	Arkansas	191	203	227
20	Indiana	733	693	798	41	Mississippi	38	37	29
21	Nebraska	274	310	323					

Source: *Social Security Bulletin*. Figures not available for Connecticut, Delaware, Florida, Oklahoma, Texas, Vermont, or Virginia. Figures for the District of Columbia, are omitted as untypical.
n.a: not available.

are unemployables not eligible for categorical assistance;[12] in bad times the number is swelled by employables not covered, or inadequately covered, by insurance schemes. Here, then, is a governmental expenditure, demand for which is high in bad times and low in good times.

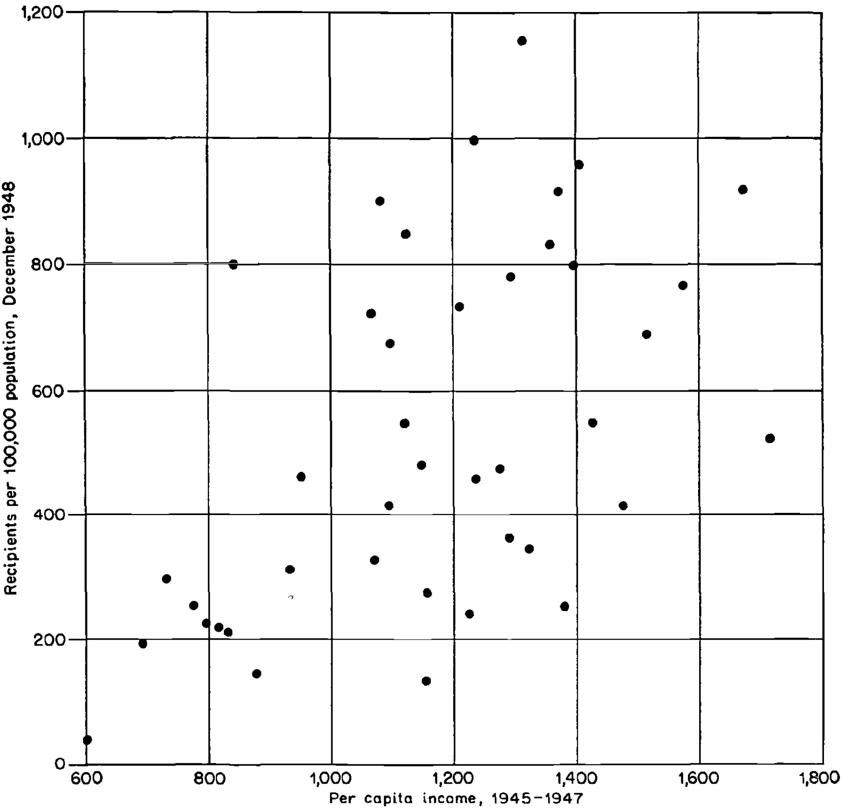
On several occasions the Federal Security Administration has advocated federal grants for general assistance, variable in terms of per capita income, on the ground that they might enable 'poor' as well as 'rich" states to provide a minimum level of service. In its presentation to Congress it urged state financial participation in general assistance. It reported in 1946 that "in 15 states the entire financial burden for general assistance rests on the localities and in 15 additional states the localities bear more than half the cost".[13] This serves, of course, to hold down the coverage and the level of general assistance. In the event of depression, the patchwork system might

[12] The FSA estimated that in December 1948 of 400,000 cases on the general assistance rolls about 330,000 were handicapped (*Social Security Act Amendments of 1949*, Part 1, p. 176).

[13] *Annual Report, 1946*, p. 503.

Chart 8

Recipients of General Assistance per 100,000 Estimated Civilian Population, December 1948, and Per Capita Income, 1945-1947, by States



Source: Tables 19 and 26.

crack, and federal intervention on short notice to meet an emergency become necessary. To those who regard general assistance as a final and certain line of defense for residuals who fall through the network of other social security provisions, a stronger system seems imperative. If it helped to put a floor under consumption by enabling state and local governments to provide a national minimum, such a system might bear a direct relation to one important phase of economic stabilization.[14]

[14] Of the 17 members of the Advisory Council on Social Security to the Senate Committee on Finance of the 80th Congress, 2nd Session, 14 favored the establishment of federal grants for general assistance equal to a third of expenditures (*Senate Document 204*, p. 14). The Council, of which Edward R. Stettinius, Jr., was Chairman and Sumner H. Slichter, Associate Chairman, stated: "there is an immediate and imperative need to redress this imbalance", i.e., the concentration of state-local expenditure on the categorical programs to the neglect of general assistance (*ibid.*, p. 6).

6 Federal Security Administration Proposal of 1949

FSA has not been unaware of the criticisms of the present system of categorical grants. In 1949 it proposed that the federal interest in public assistance as a whole be coordinated by a revised system of federal grants, but did not recommend a new and separate system of grants for general assistance alone. Instead, grants for general assistance were to be linked with changes in the existing categorical grants so as to provide a system of variable grants based upon per capita income with a federal share running from 40 percent for the state with the highest per capita income to 75 percent for the state with the lowest. This meant that richer states, which currently are receiving grants of approximately 50 percent of approved expenditure for old age assistance, dependent children, and the blind, would receive less than 50 percent,[15] whereas poorer states would receive more than 50 percent. These changes by themselves would reduce total federal grants for the existing three categories because the reductions applicable to the richer states would exceed the increases applicable to the poorer. Federal provision of grants for general assistance would, however, increase total grants for all public assistance going to every state, although the increases would be relatively larger for the poorer states.[16]

[15] During the Hearings on the *Social Security Act Amendments of 1949*, pp. 473-4, Representative Lynch of N. Y. had the following colloquy with Commissioner Altmeyer:

"*Mr. Lynch:* Is it not a fact that this looks like a one big package bill which carries with it certain amount of money for States like New York, Pennsylvania and California. But if the package is reduced and does not include in it every item that you mentioned, instead of getting 60 percent aid on the categories it will go down to 40 percent? It will cost New York something like $14,000,000 or $15,000,000 a year to make up out of its own tax rolls so as to carry on the services which are now being carried?

Dr. Altmeyer: That is right.

Mr. Lynch: And is it not also a fact that this $230,000,000 which will be appropriated under this bill must be raised through taxation, a large part of which will be paid by the people in New York so that virtually it is costing the people in New York more money by this proposition if you take the big package and it is going to cost the State $15,000,000 if you take the smaller package without the general assistance clause?

Dr. Altmeyer: There is no question about that."

[16] Details of the dollar effect by states and categories are given in *ibid.*, pp. 22-9. Besides introducing grants for general assistance and altering their basis FSA wished to raise the maxima in payments for dependent children and to include the cost of medical services and certain welfare services as eligible for grants. If the states maintained at least the levels of December 1948 and all put the recommended changes into effect general assistance would be increased $144 million, medical care $100 million, and aid to dependent children $65 million (a net increase of $230 million); old age assistance would be reduced $77 million and aid to the blind $2 million.

The FSA hoped that, under the new scheme, the states might eliminate all categories and treat all groups of needy persons under public assistance as one.[17] In this respect it takes a step in the direction of flexibility. It might also check further increases in payments for old age assistance as compared with other categories of public assistance and with OASI, and diminish relatively the flow of grants to the richer states. In some measure the FSA scheme moves toward reducing the stimulus given since 1935 to the development of categorical services, particularly old age assistance, in comparison with general assistance. Actually the pressure upon the states to cut back on old age assistance would be slight, since the estimated reduction in total grants for this purpose would be only 10 percent in terms of the December 1948 level and 23 percent for the states above average in per capita income. And the FSA proposal does not affect interstate differences in eligibility. It does not set a standard in terms of fiscal effort states must meet in order to earn grants; nor does it recommend changing the ceilings per recipient, although they are so high as to be of limited applicability for the poorer states. Finally, it does not directly recognize the issue of cyclical variation in grants.

The FSA proposal could, however, be modified to take account of cyclical changes in business activity if the federal percentages were increased in bad years and decreased in good with the expectation that thereby total expenditure might be increased or maintained in the former and reduced in the latter. This variability would be superimposed upon the variability introduced for the sake of equalization. The federal ratios might range from, say, 50 to 85 percent in a bad year and from 30 to 65 percent in a good year by gearing them to measures of fiscal capacity, such as income payments. More will be said below concerning the cyclical adjustment of grant ratios.

7 Proposal of the Committee on Federal-State Relations

The Committee on Federal-State Relations, appointed by the Hoover Commission, recommended in 1949 "that all . . . separate grants be rescinded and that a single comprehensive grant for [social, educational, public health services and housing activities] in general be substituted"[18] based partly on population and partly on per capita incomes. This recommendation, of course, goes much beyond the limited issue of grants for

[17] The bill would require that within any category each needy person "be treated consistently, taking into account his individual income and resources in determining his need" (*ibid.*, p. 165, quoting Mr. Altmeyer).

[18] *Senate Document 81*, p. 240. The Committee does not give any details concerning its recommendation.

public assistance, but highlights one broad position concerning the federal interest and responsibility for grants: that the states should be given a great deal of autonomy. Its advocates imply that adequate development of welfare functions, achievement of a national minimum, by state-local governments has been held back chiefly by lack of financial resources. The role of the federal government should, therefore, be primarily fiscal, i.e., to supplement deficient state-local finances by grants. The grants should be in the form of block grants, given for broad categories. Carried to a logical extreme this position would call for unconditional federal grants without strings.[19] The Committee on Federal-State Relations does not go as far: it declares that Congress should require uniform audits, reports, investigation of performance by the appropriate federal agency, and minimum standards for personnel. Nonetheless it urges that other conditions currently imposed be dropped.

Those who hold a more centralizing philosophy argue that the federal government has responsibilities beyond safeguarding expenditure of its money. State-local governments may sometimes not perceive the national aspects of functions that constitutionally and traditionally belong to them. If Congress decides to offer grants in order to assure recognition of the national interest, it should impose conditions. And grants for broad categories may fail to induce state governments to foster specific activities in which there is a federal interest.

Complete resolution of the two extreme positions is hardly possible, but the demand for a reduction in federal conditions seems most plausible with respect to old grants and to new grants when the purpose is primarily fiscal. Old grants, which have been in operation long enough to raise state performance at least to a minimum level, serve thereafter chiefly a fiscal purpose and conditions relating to them might be relaxed or dropped. This would, of course, permit the development of a system of broad categories. It might permit also reducing federal grants if such grants could be eliminated for the richer states and reduced for the poorer. Similarly, new grants for functions concerning which the federal government did not wish to attach conditions serve chiefly a fiscal purpose. But the situation is different for other new functions. Federal interest in them may require the imposition of specific conditions.

8 GRANTS BASED ON A 'STANDARD EFFORT' AND A 'NATIONAL MINIMUM'

An attempt will be made to analyze a plan for public assistance grants that would establish limited conditions beyond which the states might be

[19] In two other federal countries, Canada and Australia, provincial and state governments do receive large unconditional grants.

allowed wide discretion, and that would, moreover, attempt to gear the federal grants directly to cyclical changes by placing a larger share of the cost upon the federal government in depression and a smaller in prosperity. As a result, total payments to recipients might be inverse to changes in business activity.[20]

'Standard effort' is used to denote the percentage of income payments a state (even the poorest) should itself spend for a welfare service as a condition of federal aid. If, for example, the service is public primary and secondary education, Congress might assume that any state (including both state and local governments) would be willing to spend 2 percent of income payments as a standard effort. It might arrive at this judgment by considering what states currently are spending or what, in its opinion, they ought to spend. In the case of a function that is relatively well appreciated and cultivated by state-local governments – education is often regarded as an instance – the average effort being exerted might appear to be a good measure of standard effort.[21] In the case of a function that is ill appreciated and poorly cultivated by state-local governments, the case is more difficult. How judge what functions are ill appreciated? Looking back it may seem that old age assistance before 1935 was neglected. At present, in the judgment of some competent observers, the function of general assistance is ill appreciated by many state and local governments. For example, 13 of the 17 members of the Advisory Committee on Social Security to the Senate Committee on Finance of the 80th Congress, 2nd Session, felt that federal grants for this function were "an immediate and imperative need".[22] In such a case what the states on the average happen to be doing may be an unreliable guide to the standard effort.

'National minimum' means the floor or foundation level for a service or group of services which, in the opinion of Congress, should be provided even in the poorest state. For example, the 'national minimum' expenditure for public primary and secondary education might be, say, $100 yearly

[20] This scheme was suggested by the Taft-Thomas-Hill bill for aid to education (80th Cong., 1st Sess., S. 472).

[21] The assumption that education is well appreciated as a function is given some support by examining expenditure in terms of fiscal effort. In fiscal 1947, for example, state and local governments on the average spent 1.77 percent of income payments in 1946 for public elementary and secondary education. Of the 30 states whose per capita income was below average 1945-47, 25 spent more than 1.77 percent of income payments for education, and one spent 1.77 percent. In short, only 4 'poor' states did not make an average fiscal effort. On the other hand, in the case of general assistance 24 of the 30 'poor' states spent less than the average percentage, 0.08. These figures are from *Social Security Act Amendments of 1949*, p. 4, and from material supplied by the FSA.

[22] *Senate Document 204*, p. 6.

per child of school age (5-17 years). Here again a judgment concerning the appropriate figure would be easier for functions that are well cultivated by state-local governments. In the case of education the number of eligible recipients is fairly determinate because the number of school children is known and every child 5 to 17 should presumably attend school. The proper minimum level of expenditure per school child is debatable, and, apart from one's social philosophy, depends upon the extent to which the federal government wishes to set standards and attach conditions to its grants. If the customary view is taken that primary and secondary education is mainly a state and local matter and that the level is satisfactory, except in 'poor' states, the average amount now being spent may be a guide.

For a function such as general assistance, the case is very different. Objective information concerning the number of eligibles and the extent of their need is not easily available. If grants are to be provided, should the federal government leave decisions concerning eligibility and need to the states? State-local governments in identical circumstances would probably differ materially in their definitions of eligibility for general assistance. On the other hand, deviations would not be easy to control by imposing federal conditions, which, if the grants were open-end, would have to be more rigorous than they are for any welfare program at present. Congress might, indeed, choose not to make open-end grants for general assistance. It might give a 'closed' grant by allocating to each state an annual sum which represented its estimate of the appropriate federal interest in the function.[23] In any event, here again what the states on the average happen to be spending for the function may be an unsafe guide to the national minimum.

9 Graphic Representation

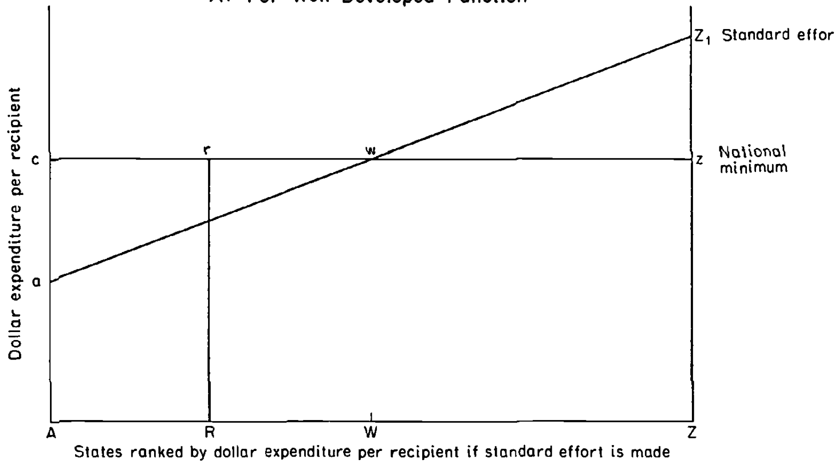
An idealized chart may serve to bring out more sharply the essence of these concepts (Chart 9). Consider first the case of a function that is well taken care of by state and local governments. In Panel A the states are ranked from low to high according to expenditure per recipient if a 'standard effort' is made, that is, if revenue equal to some selected percentage of state income payments is devoted to it. The ordinates, therefore, represent potential state-local expenditure per recipient and the line aZ_1, sloping upward to the right, shows the states ranked by this dollar expenditure if a standard effort is made, A being the poorest and Z the richest. The line cz indicates the national minimum expenditure per recipient as it might be set by Congress. As drawn in Panel A, it is a level that could be

[23] Obvious factors to use in calculating indices of relative need for such a welfare service would be population, employment, labor force covered and uncovered by Social Security programs.

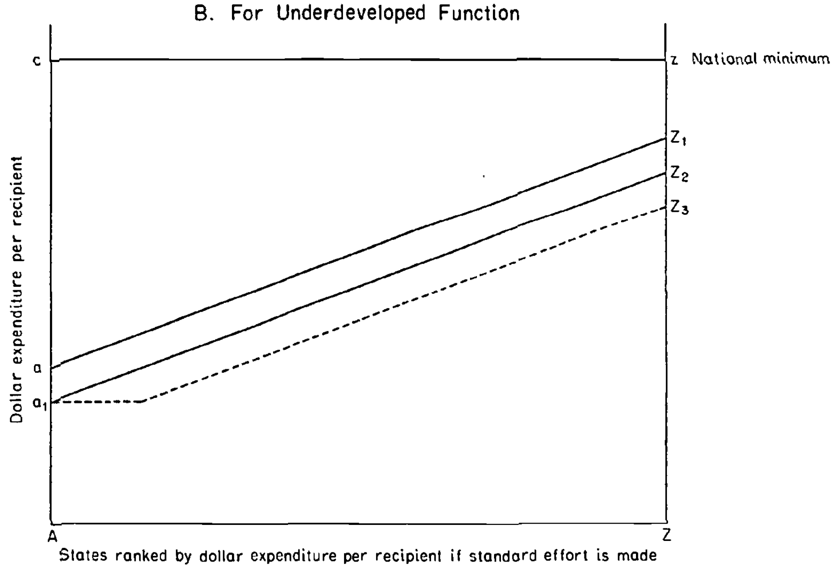
Chart 9

Idealized Standard Effort, National Minimum Grants

A. For Well Developed Function



B. For Underdeveloped Function



achieved, or exceeded, by approximately half the states by making a standard effort. The area acw represents the amount of federal grants required per recipient as a supplement to bring the level of the poorer states up to the acceptable level. No grants would be received by states to the right of W, and the fact that they were or were not spending amounts equal to the level of the standard effort would be no concern of the federal government. States to the left of W would, if they made (or exceeded) a standard effort, receive grants equal to the difference between aw and cw. State A, for example, would receive ac per recipient. The grants would be variable-ratio, since state A might get half of its expenditure from the federal treasury and state R only a quarter. Obviously by this approach the federal government could achieve objectives in only a limited number of states.

The grant program could of course be enlarged or reduced by setting the minimum level higher or lower than in this illustration. A higher level might be set on the premise that larger federal grants are desirable to relieve the load carried by state-local governments and to better the service; a lower, on the premise that attention should be concentrated on the poorer states. The former would give a large grant program and the latter a small one. Similarly, the grant program could be enlarged or reduced (the minimum level being held constant) by raising or lowering the percentage determined to be the standard effort. Requiring an effort level markedly higher than the actual current level of state-local expenditure might, unless offset by a very high minimum level, weaken or destroy the incentive to earn the grants. What if state A decided to spend less per recipient from its own resources than the standard effort, i.e., less than Aa? If the federal government felt strongly that the minimum should be achieved, failure to reach it might be penalized by paying a percentage lower than the state would receive if it made a standard effort. If, however, the federal government did not concern itself directly with state effort, it might decide that its percentage grant would be maintained, i.e., that state A would get half of whatever it did spend.[24]

Consider next the case of a function that will be assumed to be neglected by state and local governments. If the federal government wished to stimu-

[24] A scheme of variable grants (I) that includes the concepts of a minimum and a standard effort will, under certain assumptions, lead to the same result as a scheme (II) that simply has variable grants based on state income payments. If, under II, a state raises and spends an amount equal to that required of it as a standard effort under I, this brings an identical result. If, however, under II a state spends more than that required as a standard effort under I, it will earn grants on the total, whereas under I it earns grants only on the amount of the standard effort. Again under I, if the federal government decides to pay a state the same *percentage* of whatever amount the state spends below the minimum, the result is the same as under II. If, however, it decides under I to pay lower percentages for amounts spent below the minimum, the amounts received as grants will be less than under scheme II.

late state performance by grants and to steer the directions taken in performance, it might decide that all or many of the states should be given grants, and that all or many should receive direction as well.

The diagram in Panel A may be redrawn to illustrate the financial features of such a grant (Panel B). The standard effort, line aZ_1, is drawn so that all of it falls below the horizontal line showing the national minimum, thereby indicating that all states will receive a grant. The poorest state, A, would get grants of 66⅔ percent, ac, the richest, Z, grants of 16⅔ percent, Z_1z.

10 Variation in Minimum Level, Number of Recipients, and Standard Effort from Depression to Prosperity

Since the minimum is presumably set at a foundation or subsistence level, the amount per recipient (in real as distinct from money terms) may be assumed not to differ greatly in a year of prosperity or of depression. The *number* of recipients for a welfare program such as general assistance would, however, vary widely during a business cycle, and this is not shown by the Panels. On the other hand, the number of children of school age would not vary cyclically.

The curve of standard effort as depicted in the Panels would, of course, move up and down with business activity, since a given percentage of income payments would produce a larger amount in a boom than in a depression year. Let it be assumed that the base level of the standard effort is set in relation to the situation in a boom year (aZ_1 in Panel B). In a depression year the line aZ_1 would decline to say a_1Z_2, indicating a growth of federal grants, measured in terms of expenditure per recipient, from aZ_1zc to a_1Z_2zc, while in prosperity the line would rise once more. These variations are countercyclical, since grants would increase in a depression year and decrease in a prosperous year. They would thereby assist state and local governments to provide welfare services at a time when their fiscal capacity might be impaired, and to deter state-local governments from expanding such services when their fiscal capacity seemed strong.

11 Application to a Comprehensive Grant Scheme

We now try to tie the scheme of the Committee on Federal-State Relations concerning federal grants to the concepts developed above. The Committee's major criticism of existing grants – typical of those who fear centralization in government – is that they have usually been too specific. The positive suggestion offered as a remedy is that Congress should vote grants for broad rather than narrow categories of expenditure.

Suppose, for purposes of convenient exposition, that public assistance is such a broad category and that the federal government offered grants for expenditure on it instead of on certain categories – old age assistance, the blind, dependent children, general assistance.[25] How might this be set up by Congress if the concepts of the 'national minimum' and the 'standard effort' were used?

A 'closed', not an 'open-end', grant would seem in order because of problems concerning the determination of the eligibility of recipients. Under the present system of open-end grants for old age assistance, the blind, and dependent children, the federal government does not attempt to define conditions of eligibility except in such broad matters as residence and age. The state and local governments decide what 'needy' persons are put on the rolls, and their criteria differ greatly from state to state. As a result the recipient rate is extremely diverse and persons in similar circumstances with respect to need do not receive the same assistance. Yet Congress has tolerated this diversity because an attempt to define the conditions of eligibility precisely, and to supervise their application, would require so great an extension of federal authority and controls as to be administratively difficult and politically distasteful. Eligibility for general assistance is much more difficult to define and determine than that for old age assistance, the blind, and dependent children. At present, without federal grants for general assistance, standards apparently differ greatly from state to state. If open-end federal grants were offered, this diversity could be expected to persist. The grants to many states would be responsive not merely to their need but also to their liberality in putting people on the rolls. And the annual appropriation required for grants would largely be predetermined by the state-local authorities instead of Congress.

With problems of this sort in mind and guided by a decentralizing philosophy, Congress might choose to set up a closed grant for public assistance. The total governmental expenditure per year required for a minimum level of public assistance services for the nation as a whole would have to be calculated. It could not be expressed intelligently in average dollars per recipient, since recipients would be in several categories. It could, however, be expressed in dollars per inhabitant. If, for example, Congress decided that a total governmental expenditure of $2,400 million a year would provide a minimum level of service, this would amount to approximately $16 per inhabitant. Congress would have to decide also upon the portion to be borne by the state and local governments. If the decision was $1,200 million, the standard effort (assuming income payments of $240 billion) would be half of 1 percent.

[25] The *Report of the Committee on Federal-State Relations* (p. 239) indicates that the categories it has in mind may be even broader than public assistance.

Allocation of the grant among the states, and the ratio for each state, would be automatic. If a state had income payments of $1,800 million and a population of 1,300,000, its national minimum would be $20,800,000, the standard effort $9 million, the grants $11,800,000, and the ratio 57 percent. By this method, inequalities arising from the heterogeneity of state standards would tend to disappear.

In the above illustration Congress would not say anything about the distribution of the grants among the different types of public assistance or about a ceiling payment per recipient. A state might earn its total grant by spending on one type of public assistance or on all, and by payments to recipients which were, on the average, low or high. The concept of the national minimum for public assistance would be interpreted to mean a total annual expenditure per state, with no federal effort to translate this into average payments to individual recipients in each category. The federal government, in order to determine the appropriate grant, would be concerned to see that the sum spent annually by each state from its own sources for public assistance equaled or exceeded the standard effort, and also to see that its money was not misspent. But if some states chose to spend relatively little for general assistance, this would be presumed to be a matter of deliberate choice, not of irresponsibility. It would reflect a belief that this form of public assistance was relatively less important to them than other forms. The federal government, according to this approach, should not attempt to alter such state decisions.

Critics of this approach, as we have already observed, declare that the federal government should be interested in establishing minimum standards for certain programs, and in the direction and amount of expenditures by state-local governments. They argue that this is the more necessary because the present public assistance program is 'unbalanced',[26] and that part at least of the unbalance has arisen because federal grants were available for old age assistance, the blind, and dependent children, not for general assistance. Restoration of balance is, therefore, held to be a federal responsibility and revision of the present scheme might work in this direction. FSA had this in mind in its 1949 proposal. By offering grants for general assistance, by reducing total grants for old age assistance, and by shifting the basis of all public assistance grants to per capita income, FSA hoped "to remove the great disparities now existing in the treatment of various classes of needy persons and to reduce the disparities among different parts of the country".[27] It prefers to stick to open-end grants, yet is

[26] The argument of unbalance is used to draw two quite different conclusions. Some contend that additional federal grants for neglected functions should be offered; others, that specific grants will always create lack of balance, and that the proper approach is to broaden the purposes of grants.

[27] *Social Security Act Amendments of 1949,* p. 8.

not prepared to set up tighter conditions for eligibility, although the disparities among the states in this respect are already wide and introduction of open-end grants for general assistance would bring a new set of disparities under federal auspices.

While a good deal of professional opinion could be mustered in support of welfare grants that vary from state to state according to per capita income, Congressional and public support is less certain. A scheme giving relatively larger grants to poorer states may encounter opposition from richer states, especially if the percentage grants in operation for categorical assistance in the richer states are to be decreased. A member of Congress from a 'rich' state, looking at the matter "from a practical standpoint", may feel that the scheme "robs" his state.[28] Even with respect to new grants, representatives of richer states may coalesce into a bloc in opposition to grant percentages that are less for them than for poorer states.

This political difficulty applies not only to the 1949 recommendations of FSA but also to a plan that would confine welfare grants within a national minimum and a standard effort. The latter plan, however, explicitly recognizes and sets up a framework within which grants can expand and contract with cyclical fluctuations in business activity. Since the chief cyclical impact of public assistance functions upon the states will be fiscal, this might be an important advantage. For public assistance functions that are already receiving federal grants, maintenance of established standards of service will be difficult for many states in the event of severe depression. For assistance functions not now receiving grants, particularly general assistance, severe depression might bring federal intervention as a rescue operation. A system of grants for public assistance set up in advance and based on a national minimum and a standard effort, would automatically throw the depression burden of this function upon the federal government.

The completeness with which this scheme would reallocate the fiscal burden during a cycle is one of its most important characteristics. The 1949 proposal of FSA would, of course, make no reallocation. If, for example, the cost of general assistance to a particular state grew from \$400,000 to \$800,000, the relative division of this amount would be the same in a year of prosperity or of depression. And the countercyclical adjustment of the FSA scheme which was discussed earlier (Sec. 6) would make an unimportant contribution in support of state finance. In the illustration above, if the state share fell from 30 percent in a good year to 20 percent in a bad one, the total expenditure by this particular state would nevertheless

[28] Representative Noah M. Mason of Illinois, during an exchange with Mr. Altmeyer on the *Social Security Act Amendments of 1949,* said: "I am afraid, sir, looking at this proposition of yours from a practical standpoint that no Members of Congress, and no member of this committee would vote for this variable grant basis which would rob his State of several million dollars . . ." (p. 470).

increase from $120,000 to $160,000. Such an added financial burden might be difficult to carry, and a scheme which shifts the depression burden more completely to the federal government might be desired.

The minimum level-standard effort scheme goes very far in this direction. The completeness with which it works can be illustrated by making more elaborate assumptions concerning general assistance. Assume that all states get grants for general assistance, that the minimum level is $50 monthly per case, and that in a prosperous year the cases number 500,000. This means a total annual expenditure of $300 million. Assume also that the standard effort is set at a tenth of 1 percent of income payments of $240 billion, or a total of $240 million. The federal grant would then be $60 million, i.e., 20 percent of the total.

Suppose that onset of depression caused the recipients to double and income payments to fall 10 percent. Total expenditure would rise to $600 million. With income payments down to $216 billion, the total state shares would decline to $216 million. The federal share would rise to $384 million – more than sixfold, although relatively the increase would be simply from 20 to 64 percent of the total expenditure.

12 Dangers and Difficulties in Countercyclical Adjustment of Grants

The operation of a scheme for countercyclical variation in grants would face certain dangers and difficulties. Consider first the implications of a 'closed' grant, assuming that Congress, for reasons explained in the preceding section, decided against an 'open-end' grant. Two technical difficulties concerning timing would arise. The routine process of getting annual federal appropriations is time consuming and inflexible. Unless countercyclical appropriations were given priority or a speedier procedure adopted, proper timing might be impossible. A 'closed' grant would require also that a current measure of the need of individual states (reflecting especially the potential number of recipients) be devised. Here the problem would be to ensure Congressional as well as statistical acceptability.

The exposition in Section 10 assumes that new figures of standard effort should be calculated as new figures of income, *state by state,* become available, and that the grants should be increased or reduced fairly promptly in response to changes in income payments since an appreciable lag might destroy the countercyclical effect.[29] A question arises, therefore, concerning the availability of figures which are reasonably current. Figures of

[29] Grants for public works, on the contrary, as will be argued below, should not necessarily be geared to change in income payments because a prompt increase of public spending might prevent adjustment in construction prices and costs.

income payments, state by state, are on an annual basis and are available seven months after the close of the year. National figures of quarterly income payments are almost current, and rough quarterly measures of state by state payments could be devised. Grants could be made in the form of advances based on the rough measures and corrected later as final figures became available. A question may be raised also concerning the reliability of these figures state by state on a yearly basis. It would seem that reliability could be attained even if it is not now present.

Cyclical adjustment might, indeed, be based on other measures than income payments. Selma J. Mushkin makes the point that such physical indices as the percentage employed (or unemployed) avoid the problems of price adjustment and of selecting a base period that use of income payments faces. Employment and unemployment would, however, appear to be poor criteria of need in agricultural states. A more subtle question concerns the relation of changes in income payments to tax potentials. State tax revenues would not be uniformly affected by changes in income payments. In general the revenues of states that rely most heavily upon taxes on consumption would decrease less in depression than those of states that rely upon taxes on income. The scheme outlined above neglects this relationship. It assumes that federal grants should be adjusted directly to changes in income payments.

The assumptions that the grants might be adjusted quarterly and geared to yearly changes in income payments raise other difficulties. How can the states budget without a more certain knowledge how much the federal government will grant? No method of meeting this difficulty can be suggested, but one may question its importance. An *increase* in grants, such as would occur in depression, might require alteration of state budgetary plans, but this should not be embarrassing. The return of prosperity would bring a *decrease* in grants and a more awkward alteration in budgetary plans. In terms of countercyclical effect, however, federal pressure to curtail state expenditure at such a time might be regarded as desirable.

Another and related difficulty arises from the fact that variations in income payments for some states may differ appreciably from the variation in the national total. Marked yearly changes in the figures for certain states would, under a countercyclical scheme, bring marked increases or decreases in grants. The latter, at least, might cause protest, although the pressure of a decrease in federal grants in response to an increase in income payments for a state might be regarded as desirable.

The belief is widely held that the federal grant percentage should not rise for any state above approximately 75 percent because this might impair state-local administration of a function. The essence of a program of conditional grants is that administration and supervision be in state-local hands, and effective performance might be impaired when their financial participation fell to a low figure. If the state-local share in a 'poor' state fell below say, 25 percent, the alternative would appear to be complete federal assumption of the function.[30] Yet such a step in a few 'poor' states might be unconstitutional and certainly would be open to the objection that a dual system is administratively and politically undesirable. What, then, if measures of need and effort pointed to a higher percentage? Obviously the higher the minimum and the steeper the slope of the curve of effort, the more often would this situation be encountered.[31] In case of conflict between administrative and prudential considerations which suggest a ceiling of 75 percent, and considerations of program needs which indicate a higher figure, a choice would have to be made. If the decision were in favor of the former, it would appear necessary to specify that federal payments should not exceed 75 percent. In Panel B of Chart 9 this means that an effort line such as a_1Z_3 would flatten out at its left end. It might, indeed, be argued that a rise in the federal share above 75 percent, which is caused by depression and which for this reason is temporary, would be less dangerous than a federal share that is, at all times, above 75 percent. The requirement that every state should continue, in depression as in prosperity, to exercise a standard effort, might also serve to curb financial irresponsibility growing out of a low state percentage.

Any countercyclical scheme runs the danger that Congress might hesitate to reduce grants during prosperity. If, for example, the present suppressed demand for general assistance were satisfied in depression through a federal grant program, expenditures might not shrink proportionally with the return of prosperity. For one thing, the backlog of eligible applicants would probably be added gradually to the rolls, which would hold expenditures at a higher level; for another, lowering the level of expenditure might meet political resistance. Just as expenditure for categorical assistance has risen to levels which, in 1935, were wholly unforeseen, so might that for general assistance. The framework of the scheme outlined above is designed to forestall this eventuality, but it might not remain intact. In this event the countercyclical effects would be overlaid, if not destroyed,

[30] In Canada the federal government has for some years given grants of 75 percent for old age assistance (pensions). Federal officers have been dissatisfied with this arrangement on the ground mentioned above.

[31] Compared with prewar the relative spread among the states in per capita income has greatly narrowed. For example, in 1941 Mississippi, at the bottom of the scale, had a per capita income of \$195, and Nevada, at the top, one of \$960; in 1946 the figures for these states, still the lowest and highest, were \$555 and \$1,703 respectively. An effort curve would, therefore, slope less in 1946 than in 1941.

and state-local expenditures might be swelled unnecessarily. Expansion of expenditure for any one function, say general assistance, would have an adverse effect upon state-local performance of other functions.

Opposition to a decrease in prosperity of a grant percentage that had been raised in depression would be intense. In the case of public assistance grants it would be rooted in poignant human situations. Most persons affected by a decrease in this type of expenditure would be unemployables or marginal employables. Payments would seldom be more than enough for a minimum living standard and would not give some recipients even that. Federal action reducing grants for these payments would strike many citizens as inappropriate, the more so because it would inevitably occur when the fiscal position of the federal government was good. The rejoinder would be that state-local governments should maintain payments to individuals at the proper level from their own resources, and that a decrease in the federal percentage was merely in response to a change in cyclical indices. But the onus would appear to be on the federal government because upon it would fall the responsibility for initiating the change. Obviously also the higher the level reached by the federal share, the more difficult in all respects would be the reversion.

Sufficient analysis has perhaps been given to enable a reader to draw conclusions concerning the different positions. Whatever these may be, it should be borne in mind that a grant scheme for public assistance as a whole, or for selected categories, can be formulated that may assist state and local governments to maintain or expand payments in depression when, without such a scheme, they would be unable to do so, and that may restrain state and local governments from expanding payments in prosperity merely because their fiscal capacity appears to be improved.