Greater Equity in Public Assistance Financing

By A. J. Altmeyer*

While the partnership of the Federal Government and the States in financing aid to needy old people, the blind, and dependent children has brought these groups a greater measure of economic security, in some places needy people get little more than a pittance and others receive no assistance at all. The methods of financing the Federal-State partnership are primarily responsible for this unfortunate situation. The Social Security Board has recommended modification of these financial provisions to assure that needy persons may receive reasonably adequate assistance no matter where they happen to live.

THE FEDERAL GOVERNMENT maintains a standing offer to match dollar for dollar, within given limits, what the States and their localities spend for public assistance. Thus the amount of the Federal grant to a State is limited to the amount spent by the State and its localities. Likewise, in most of the 28 States that require localities to share in financing public assistance, the amount a locality puts up for matching determines how much it will get in Federal and State money. Under these arrangements, States with limited economic resources, and poor localities within even the richer States, cannot provide a decent measure of security for their needy people. Too often the amount of assistance an individual gets depends on where he happens to live, not on what he needs for a minimum standard of living. Moreover, since need is usually greater in the poorer areas, when they do tax themselves to meet need adequately their fiscal burden is far greater than that in more prosperous places.

In paying assistance, States make up the difference between anything a needy person himself has and what they find he requires for shelter, food, and other basic essentials. If relatives are helping him regularly or if he has regular earnings, such resources are commonly taken into account in deciding how much assistance he should receive. Payments to individuals therefore differ widely, and the average payment in a State is made up of smaller amounts for people who themselves have a little and larger amounts for those who have nothing.

When a State does not have enough money to meet the requirements of all its needy people, one or a combination of several things may happen. The State may decide to place a limit on the amount that can be given to any person or family, however great the need. It may decide to limit the requirements to food, shelter, and fuel, for example, and to allow nothing for such requirements as clothing and medical care. Or the State may reduce the amounts allowed for particular requirements or may make a general ruling that no needy person will receive more than a part—perhaps two-thirds or three-fourths—of the amount the State agency believes he actually requires. Or the State may try to maintain its standards of assistance for the people actually on the rolls by approving new applications only as other cases are closed.

All these practices have been used in public assistance under the Social Security Act. In one State and another, many of them exist now, though national income is greater than ever before. The primary reason for such practices is the inability of States to put up their share of an amount which, with the matching Federal grant, will provide adequate assistance within their borders. The Social Security Board has recommended to Congress that the Federal Government provide special aid for public assistance, on an objective basis, to States with low economic capacity. To give full effect to this amendment, however, State-local fiscal arrangements also must be modified so that the amount available to a locality for its needy people will not hinge on its tax-raising capacity. In other words, Federal and State funds should be so distributed among localities that needy people in like circumstances will receive like treatment wherever they live within the State.

Special Federal Aid to States

The many bills introduced in the Congress in recent years to change the method of allocating Federal grants-in-aid for public assistance reflect widespread dissatisfaction with our present system. These measures propose various approaches to the problem, but they all have the common purpose of ensuring that reasonably adequate assistance is available to needy people in each State regardless of its financial resources. This principle has been endorsed by the Council of State Governments, the American Public Welfare Association, and other interested and informed groups. Thus the Interstate Committee on Postwar Reconstruction and Development of the Council of State Governments recommends that "In collaboration with the National Government, the States should consider . . . what changes in . . . methods of finance will provide adequate assistance to all recipients throughout the country," and further, that "In respect to services in the financing or administration of which two or more levels of government participate, financial support from the National Government to the States or from the States to the localities should be allocated on a basis which reflects both the need and the financial ability of the recipient units." Congress officially recognized this principle when it directed the U. S. Public Health Service to consider the financial needs as well as the health needs of the States in making grants-in-aid for public health.

People often ask how far our present system falls short of providing adequate assistance to all needy persons and whether special Federal aid will bring us nearer to this goal. They also ask whether the richer States will be the losers if the poorer States receive a larger share of Federal funds. Some ask whether the wartime economic improvement in the States has made it unnecessary to change the Federal grant-in-aid system. These major questions are discussed in the following paragraphs.

What Low-Income States Get

Income received by people in a State—including wages and salaries, profits, interest, dividends, rents, and all other types of income—has been generally accepted as a measure of the State's financial resources. During

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the 3 years 1941–43 the average income per person in the United States as a whole was about $860 a year. In the 12 lowest-income States, however, per capita income was less than $600. When income is so low, little can be drawn off in taxes to support public assistance and other governmental services. These States, which have relatively small financial and economic resources, have therefore been receiving relatively little in Federal grants for public assistance. In the last fiscal year, for example, the 12 States with lowest average income had 21 percent of the population of the country but received only 14 percent of the total Federal amount granted for public assistance.

Actually, the differences among the States in the relation between need and assistance funds are even greater than these figures suggest. Children and the aged, who are the potential dependents, make up a larger proportion of the total population in these low-income States than in States where average income is higher. Moreover, many of the wealthier States can and do spend additional amounts of State and local money for assistance payments above the amounts the Federal Government shares. That is, they spend their own money alone for any part of an assistance payment in excess of $40 per month to a recipient of old-age assistance or aid to the blind, or in excess of $18 for the first child and $12 for additional children in the case of aid to dependent children.

The low standards of assistance prevailing in the lowest-income States clearly reflect the inadequacy of their assistance funds. For the country as a whole the average monthly payment to needy old people is approaching $30 a month. In 9 of the 12 lowest-income States, however, the average, in spite of substantial increases in recent years, is less than $20; in 5 of these 9 States it is less than $15. All these 12 States are substantially below the national average in aid to dependent children, and all but 2, in aid to the blind. When standards of assistance are low, many people who have a little income are not considered needy, though States with higher standards would give them aid. We might therefore expect that relatively few people would be found eligible for assistance in the lowest-income States. Because need is widespread, however, 7 of these States are above the national average in the proportion of the aged and blind they assist, and in aid to dependent children about a third of these States exceed the national average. If their standards of assistance were comparable to those in more prosperous States, many more people would be eligible for assistance than now receive it. These States have had to spread their limited funds thin among only the people in greatest need.

Sometimes it is said that the small assistance payments in the low-income States are the equivalent, in adequacy, of the larger payments elsewhere. Such a statement confuses geographic differences in standards of living with differences in the costs of the same goods. The average standard of living is generally low in States where per capita income is low. But that is not to say that there are wide differences among States in the costs of buying the same quality and quantity of food, clothing, housing, and other necessities. Cost-of-living studies do not show large or clearly defined differences among States and regions in the costs of identical or equivalent goods. To justify low assistance payments in low-income States by the low standard of living in those States defeats one of the basic purposes of Federal grants-in-aid.

Sometimes it is said that the low-income States could improve the lot of their needy population without special Federal aid if they taxed themselves for this purpose to the same extent as the richer States. But public assistance represents only one of many governmental functions that must be supported from State and local funds. States in which the over-all tax burden is already high could increase expenditures for public assistance only by a further increase in taxes or by diverting funds from other essential governmental services.

A rough measure of tax effort is the proportion of the total income of the inhabitants of a State that is drawn off in State and local taxes. Using this measure, we find that 8 of the 12 lowest-income States, in contrast to only 4 of the 12 richest States, exert tax effort that about equals or exceeds the average for all States. But if a rich State and a poor State pay the same proportion of total income in taxes, the burden on the people in the poor State is probably heavier. Among States, as among individuals, the margin of income available for taxes is not so great among the poor as among the rich. Moreover, in 4 of the 12 lowest-income States the share of all State and local taxes devoted to public assistance approximates or exceeds the national average. Thus while some of the lowest-income States might be expected to provide some additional funds for public assistance, the record of the majority compares favorably with that of the richest States.

Increasing Assistance Payments

Experience in the war years has confirmed the Board's belief that lack of funds is the major obstacle to an increase in assistance payments in the lowest-income States. With the wartime improvement in State and local finances, all the 12 lowest-income States have increased State and local expenditures for public assistance, some spectacularly. As a result, between December 1940 and December 1944 several doubled or nearly doubled the average monthly payment in one or another of the three assistance programs and one more than doubled the average in all three. But while payments have risen, they are still woefully inadequate in most of these States in comparison with those in other States and in the light of the rise in the cost of living. The lowest-income States have demonstrated their willingness to spend more money for public assistance—even their own money—when they have it. The proposed system of special Federal aid might well give an inducement to some States to tax themselves further for public assistance, since every additional dollar they spent in State and local money would bring them more Federal dollars than at present.

These facts should allay any fear that, given special Federal aid, the lowest-income States might leave assistance payments where they are and use the Federal increase to reduce State and local taxes. As a matter of fact, in States where taxes now are an excessive drain on State and local resources, some reduction in State and local taxes would be in accord with the basic purpose of Federal grants-in-aid. Some proponents of special Federal aid have suggested that, as a condition of such aid, States be required to spend at least a given amount from State and local funds. This is the so-called "floor" provision. A major defect in most "floor" provisions is that they tend to perpetuate the present inequalities in tax effort among the States. A "floor" provision that avoids this difficulty, however, might be useful in dealing with exceptional State situations.

Increasing the General Welfare

In the economic life of the Nation, State boundaries are of little significance. All sections of the country are economically interdependent. Markets are Nation-wide, and many business enterprises, wherever they happen to be located, draw their labor, their capital, and finally their profits from all parts of the country. Because the welfare of each section of the country is of concern to all sections, many people believe that in meeting welfare needs there should be some pooling of the tax resources of the Nation.

Like the present grant-in-aid system, special Federal aid is designed to effect this concept. Either system contemplates that the share of Federal taxes which the more prosperous States will pay into the Federal Treasury will be larger than their share of grants-in-aid, and that the lowest-income States will receive more than they pay in. Unfortunately no satisfactory estimates can be made of the share of Federal taxes paid by the inhabitants of a State for comparison with the share of total Federal grants the State receives for public assistance. Under the present system, however, Federal grants to the lowest-income States are relatively so small that it is possible that part of the Federal taxes these lowest-income States pay may go to pay the grants received by wealthier States. At best, the return to the lowest-income States may approximate their tax contribution. Obviously, the net result is that a good deal of money flows in and out of the Federal Treasury, but the lowest-income States are no better off than they were before.

Under a system of special Federal aid, the total amount of Federal grants would be larger. The low-income States would receive more than a dollar of Federal funds for every dollar of State and local funds they expended. The high-income States would continue to receive Federal matching, dollar for dollar, just as they now do, but their share of the increased Federal total would be smaller, and that of the low-income States, correspondingly greater. This more equitable sharing of cost would be of economic advantage to all sections of the country because of the increase in purchasing power in the poorer States.

State Financing After the War

The sizable balances in some State treasuries are occasionally cited as a reason for believing that no additional Federal aid in financing assistance is necessary. The war economy has brought about an improvement in the income and fiscal resources of many States. The Bureau of the Census notes, however, that "the combination of abnormally high revenues . . . with relatively low expenditures results in an apparent prosperity which is unprecedented in the financial history of the States. The word 'apparent' is used advisedly, since the wartime pattern of State finance is a transitory phenomenon, and surely its continuance cannot be counted upon after the cessation of hostilities."

Moreover, there are various demands on these State balances. The Census Bureau reports that many States have included substantial capital items in their budgets for the next biennium for outlays to repair or replace run-down schools, hospitals, welfare and correctional institutions, State office buildings, and highways, which have had to be greatly neglected during the wartime shortages in manpower and material. The States' reluctance to use their accumulated balances to meet ordinary current expenses is entirely understandable in light of the deferred and added obligations that they expect after the war.

Assistance needs, too, will undoubtedly be intensified by the inevitable economic dislocations of reconversion. Many old people who have been supported by the wartime earnings of relatives, and many mothers of dependent children who have taken jobs for economic or patriotic reasons, will need assistance. An upturn in the number of families receiving aid to dependent children began late in 1944.

Distributing Funds Equitably Within States

Increase in Federal grants to States will not result in equitable treatment of needy individuals unless satisfactory methods are worked out for apportioning Federal and State funds among subdivisions within States. Whether or not a needy person receives aid often depends on whether he lives in one county or a few miles away, in another. This inequitable treatment of needy individuals is largely due to failure to apportion Federal and State funds among localities in such a way that each has about the same amount in relation to its need. This problem is present in all States, but it is particularly acute in the 28 States that now require localities to share in financing one or more of the special types of public assistance. In these States, localities usually receive Federal and State funds only as they are able to raise local funds to be matched. When need is great and fiscal ability is low, local officials have two alternatives: they can limit the amount they spend for assistance, or they can place an extremely heavy burden on their taxpayers. More often than not, they do both.

County Differences in Assistance Payments

Differences among localities in assistance payments are like those among States. More prosperous areas have large tax resources and proportionately fewer people to assist. Usually they make higher payments than are made in poor areas, where relatively more people are in need. In one State, for example, each county must put up 20 percent of the amount spent within its borders for old-age assistance. In all the 10 most prosperous counties in that State, measured by per capita assessed valuation, the average old-age assistance payment is more than $20 a month, while in all but 2 of the 10 poorest counties the average is less than $20. Like the differences among States, these differences are usually greater than would be expected from known facts on differences in need and cost of living. In this same State, most of the 10 prosperous counties assist less than one-fifth of their aged population and one assists less than one-tenth. On the other hand, 5 of the 10 poorest counties assist one-third or more of their old people, and one assists more than two-fifths.

County Fiscal Burdens

Most local governments must rely on the property tax as their major source of revenue. Communities with low property values therefore have great difficulty in carrying their share of an adequate—or even an inadequate—assistance program. In the State mentioned above, the 10 poorest counties, as a group, spent 4½ times as much for old-age assistance per $100 of assessed valuation as was spent by the 10 richest counties. Yet in spite of their greater fiscal effort, the poorest counties made relatively low payments. In another State where each county meets one-fifth of its old-age assistance costs, per capita assessed valuations are less than $1,200 in about half the counties. Three-fourths of these counties levy 4 cents or more per $100 of assessed valuation to meet their share of old-age assistance. Among the counties with higher per capita assessed valuations, however, only one levies as much as 4 cents. Thus fiscal ability tends to be low where need is great, and the poorer localities often bear a disproportionately large financial burden in paying their required share of assistance.

If public assistance is to be adequate in the poorer localities without a further drain on their overtaxed resources, some way must be devised to equalize the fiscal burden among counties. In financing education, the principle of granting more State aid to poorer localities is well established. At least 39 States have had experience with equalization plans for financing local public schools. Application of this principle in financing public assistance would represent merely an extension of an accepted practice in State-local fiscal relations.

In summary, our present grant-in-aid system does not ensure that assistance can be reasonably adequate in each State and locality. Modification of the financial arrangements to permit more Federal funds to flow to the low-income States and more Federal and State funds to flow into poor localities within the States will bring this goal nearer. Of equal importance is the need for improvement in other aspects of public assistance administration. Needy individuals can be assured equitable treatment only if all State public assistance agencies adopt adequate standards of assistance and assume greater responsibility—both administrative and financial—for the State-wide application of such standards.

Intrastate Equalization In Financing Public Assistance

By Byron L. Johnson*

In its *Ninth Annual Report*, the Social Security Board expressed its belief that, just as the Federal share of public assistance costs should vary with economic capacity of the States, so Federal and State funds should be distributed to localities in relation to their public assistance needs and, where the localities participate in financing, also in relation to their financial ability. A similar view has been expressed by the U. S. Treasury's Committee on Intergovernmental Fiscal Relations.[1]

This article is concerned with the financial techniques necessary and the alternatives available in putting a system of intrastate equalization into operation under State public assistance programs. It assumes acceptance of the objective, on which there is increasing general agreement, that needy individuals in similar circumstances throughout a State shall, within each category of assistance, be assured equitable treatment—that is, that the same relationship exists between the consideration of need and the resources to meet that need in each and every local administrative subdivision. This is intrastate equalization from the viewpoint of the recipient.

From the viewpoint of State-local relations, intrastate equalization means that the States should so allocate Federal and State funds among localities that their public assistance needs, determined according to State standards, can be met uniformly. If localities do not participate in financing the program, differences in local fiscal ability will not affect the amount available for expenditure and the State should be able to allocate its own and Federal funds so as to meet uniformly the total amount of need in each locality. When a State requires local financial participation, however, variations in local fiscal ability must also be considered. Then intrastate equalization requires distribution of Federal and State funds among localities in relation to local fiscal ability as well as to local need—that is, equalizing the financial burden among localities while maintaining comparable program levels.

At present, the common practice of requiring a locality to raise a fixed percentage of the public assistance expenditures within its borders is a major financial impediment to equitable treatment of needy individuals, because localities differ widely in their ability to provide funds for public assistance (or for any other major public service). Complete removal of the impediments to equitable treatment of individuals arising out of local financial participation can be accomplished only by dispensing with local financial participation entirely. Many States did abandon local financial participation at the time that their assistance programs were placed under the Social Security Act.

Intrastate equalization of public assistance may thus consist of three principal elements. The first and fundamental element is a uniform measurement of the need, in the locality, for assistance. The second necessary element, if the State plan calls for local financial participation, is uniform measurement of local fiscal ability. The third is a method of determining local contributions and of allocating Federal and State funds so as to give proper recognition to differences in local needs and fiscal abilities.

Measurement of Need

If equity in assistance is to be attained, methods of measuring the requirements and resources of needy individuals must be uniform in all localities in the State. Mandatory uni-

*Bureau of Research and Statistics, Division of Finance and Economic Studies. The preceding article in this issue, by the Chairman of the Board, discusses use of variable Federal grants and the necessity of equalizing the financial burden on localities of supporting the same level of welfare services. See also other *Bulletin* articles: "Formulas for Variable Federal Grants-in-Aid," June 1940, and "The Financial Participation of the Federal Government in State Welfare Programs," January 1940, both by Daniel S. Gerig, Jr.; and "Distribution of Public-Assistance Funds Within States," December 1939, by Joel Gordon and Olivia J. Israeli.

[1] *Federal, State, and Local Government Fiscal Relations* (S. Doc. 69, 78th Cong., 1st sess.), a report of the Treasury Committee on Intergovernmental Fiscal Relations, especially pp. 171 and 551.