



OCTOBER 1949

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

August Reserve Requirement Cuts

Expand Money Supply Through Aid to Treasury Deficit Financing

For the third time in a little more than three months the Board of Governors of the Federal Reserve System on August 5 announced a substantial reduction in the reserve requirements for member banks. The flat, across-the-board reduction of two per cent in reserves required against demand deposits, and the accompanying cut of one per cent in time deposit reserve requirements, brought the reserve percentages required of reserve city and country banks to the lowest level since October 1941. In taking this action, the Board of Governors reiterated its often expressed intention of keeping credit easily available during the current period of widespread business readjustment. These latest reductions coincided with (1) the obvious and pressing need on the part of the Treasury for substantial new deficit financing, and (2) the beginning of the belated seasonal increase in private demands for bank credit. By supplying the banking system with abundant funds, reserve requirement cuts enabled both these demands for credit expansion to be met, while still preserving eased conditions in the money market as a stimulant to business.

Reserve requirement reductions of August 5 freed approximately 1.8 billion dollars of member bank reserve funds—500 million for central reserve city banks, 675 million for reserve city banks, and 625 million for country banks. Because the Board of Governors adopted the novel procedure of spreading the reductions over an entire month, new funds seeking outlets flowed into the market fairly steadily over the month of August.

The most important outlet for the new bank funds lay in direct and indirect credit extensions to the Treasury. During the month of August, the Treasury increased the publicly held debt by 1,671 million dollars, one-third through stepped-up weekly bill issues, and two-thirds through sales of Treasury savings notes. Banks acquired a major portion of these new bills through direct bidding; and indirectly extended a substantial volume of credit to the Treasury by purchasing marketable Governments from nonbank holders who in turn applied the funds in the purchase of Treasury savings notes. Bank payments and deposit transfers in connection with these operations produced a net increase of over one billion dollars in Government deposits held by weekly reporting member banks over the period.

Offsetting sales of short-term Governments by the Federal Reserve supplied another major outlet for the new funds. Between July 27 and September 7 (the end of the statement week during which the last reserve requirement reduction took effect), Federal Reserve holdings of Government obligations decreased 1.1 billion dollars, one-fifth in bills and four-fifths in certificates and notes. As banks absorbed the effects of these operations, and reduced their borrowings from the System,

member bank reserve balances were reduced 1.4 billion. An expansion of 416 million in loans to the public by weekly reporting member banks absorbed some additional reserves over the period. One-third of this expansion from July 27 to September 7 was composed of loans to brokers and dealers for carrying Government obligations. The seasonal rise in business loans absorbed fewer reserves than usual in this period, as it was not until mid-September that the recent sharp upturn in business borrowing became evident.

Within the banking system, banks in the major financial centers invested their freed reserves rapidly. Funds received by big city banks outside New York through large deposits by correspondents were also quickly utilized. Varying rates of increase in correspondent balances and in Federal Reserve operations, however, occasionally caused temporary tightness in the reserve positions of some city banks. Country banks during the month were much slower in their utilization of funds, but by the end of the month, repayments of borrowings, large increases in balances with correspondents, and purchases of Governments had absorbed the major portion of their new excess reserves.

In total, the above uses of reserve funds released by the Board's action enabled weekly reporting member banks to expand their earning assets by 2.2 billion dollars between July 27 and September 7. Eighty per cent of this expansion came in Government securities, chiefly short-term. The volume of newly-freed reserves was almost entirely absorbed in the process, two-thirds in indirect purchases from the Reserve System and the remainder in repaying borrowings and supporting the 2.0 billion increase in Government and interbank deposits. By September 7 excess reserves were down to one billion dollars, only 60 million above the July 27 level.

MEMBER BANK RESERVE REQUIREMENTS JULY 31, 1949 — SEPTEMBER 1, 1949

Effective Date of Change	Central Reserve City Banks	Reserve City Banks	Country Banks
Net Demand Deposits			
<i>In effect</i>			
July 31.....	24	20	14
August 1.....			13
August 11.....	23½	19½	
August 16.....			12
August 18.....	23	19	
August 25.....	22½	18½	
September 1.....	22	18	
Time Deposits			
<i>In effect</i>			
July 31.....	6	6	6
August 11.....	5	5	
August 16.....			5

Devaluation of the British Pound—II

Effects of World Realignment of Currencies Uncertain

When Great Britain announced the reduction in the dollar value of the pound sterling, she set off a wave of currency depreciations of historically unprecedented proportions. Since September 18, more than 25 countries have altered the exchange parities of their monetary units with the United States dollar. This widespread realignment of exchange rates reflects the fact that the dollar deficit, although much more critical in the British case, is a malady which afflicts most of the non-dollar world. The result is much as if the dollar had been revalued upward relative to other currencies although the relationships between the latter have also been altered to the extent that the devaluations were of different proportions. The accompanying table shows a comparison of the old and new parities of the various currency units with the dollar and the proportionate amounts of their devaluations.

The International Monetary Fund gave full approval to the adjustments on the grounds that they constitute an essential step toward European recovery and toward the restoration of equilibrium of world trade. Although the Fund is committed "to promote exchange stability" and to prevent arbitrary and competitive exchange depreciation, it does not favor rigid adherence to parities which have ceased to be realistic measures of basic cost-price relationships and thus lead to sustained trade deficits or surpluses. The initial par values established by the Fund for member currencies at the end of 1946 were at the then prevailing rates, and in a statement issued by the Fund at that time it was clearly recognized that in some cases these would "later be found incompatible with the maintenance of a balanced international payments position at a high level of domestic economic activity."

Just how these exchange adjustments will alter world trade relations and how effective they will be in correcting the universal dollar shortage are uncertainties. Devaluation is not, in itself, a permanent solution to the dollar problem. Nevertheless, if used in connection with other constructive measures and in an atmosphere of international economic cooperation, it will contribute to greater balance in world trade until more fundamental solutions can be achieved, and it may provide the only conditions under which more permanent readjustments can be worked out. Toward this end, the accord reached at the American-British-Canadian conferences in Washington is a promising step in the right direction. The success of devaluation, however, even as a stopgap measure, depends on the extent to which contradictory developments, such as rising internal prices or restrictive commercial policies, are effectively restrained.

Attainment of a lasting solution to the dollar problem cannot reasonably be expected in the interim before the

Marshall Plan ends. Ultimately, answers must be provided for the deep-seated problems growing out of basic structural changes in the world economy—permanent loss of export markets by countries heavily dependent on foreign trade, the tendency for United States productivity to rise faster than that of the rest of the world, and the fact that the world needs more goods from us than we need from external sources.

MARKET REACTIONS—THE BRITISH CASE

The immediate effect of the reduction in the dollar value of the pound is to make British goods cheaper to American buyers and American goods more expensive to British buyers. If the physical volume of exports and imports remained unchanged, Britain's dollar position would be worse instead of better. What is hoped for, of course, is that the change in the terms of trade will stimulate an increase in the volume of exports by more than enough to offset the smaller dollar earnings of a given sales volume and at the same time reduce dollar requirements by discouraging imports. As opposed to the probable alternative of increased exchange and import controls, the attempt to bring about a balance through the price mechanism is a commendable approach.

The analysis does not end here, however. The net effect of devaluation depends on what happens to supply and demand factors affecting exports and imports, relative costs and prices, and policies of other countries.

The first important question in the British case is whether exports can be expanded enough to make up for lower prices. With a reduction of 30 per cent in the external value of the pound, an increase of more than 44 per cent in the sterling value of goods sold is needed to obtain more dollars than before the devaluation. It is not likely, however, that the dollar prices of all or even a few British exports will reflect the full amount of the devaluation. In some cases, where exports are limited by production rather than price, the dollar price probably will not be reduced at all, that is, sterling prices will be correspondingly raised. British sellers can be expected to reduce prices only to the extent that their gross receipts will be maximized, which in turn, depends on the relative conditions of supply and demand for individual commodities, competition, and the degree of responsiveness of the market to price reductions. So far, it appears that sterling prices have risen more than dollar prices have fallen. In most manufacturing lines, present indications are that the price cuts will amount to about 10 to 20 per cent. Reduction of prices of primary commodities from the non-British sterling area would not be likely to increase sales appreciably.

Price, of course, is only one of the factors influencing

the volume of British exports. Lower prices will not stimulate demand unless American buyers are offered the kind of goods they want. This calls for greater efforts in the fields of market analysis, reallocation of resources, merchandising methods, and salesmanship. Moreover, measures are needed to increase the supply of as well as the demand for exportable commodities. Productive capacity in export industries must be adequate to achieve the volume of output needed for export. This would involve greater productivity and probably some redirection of productive resources into fields where demand is now high or where it is highly responsive to price changes. On the whole, aside from the initial spurt in sales to the United States reflecting earlier postponement of purchases in anticipation of devaluation, little expansion in Britain's exports is expected for at least six months—or until needed improvements in production and marketing can be worked out.

On the import side, it now takes 44 per cent more pounds to buy goods of the same dollar value as under the old exchange rate. Here a saving in dollars will result only if the volume of imports is reduced. Although higher sterling prices would normally tend to cut down the demand for American goods, the rigid restrictions on imports already in effect cast considerable doubt that they can be reduced much further unless additional domestic production can provide substitutes for necessities now imported. A large percentage of Britain's imports from the United States consists of essential foodstuffs and raw materials and machinery needed for her export industries. In any event, most of the corrective effects will have to come through an expansion in exports rather than through further paring of imports.

POSSIBLE OFFSETTING DEVELOPMENTS

If devaluation is to be more than a temporary palliative to Britain's dollar problem, effective restraint must be exercised over internal prices and costs. One of the major drawbacks of this device is that the higher prices of imported raw materials and items entering directly into the cost of living are likely to set in motion a wage-price spiral which would quickly offset the price reductions abroad accomplished by the lower exchange rate. The current danger in Britain of such a result is made greater by the fact that she is already in a state of overfull employment. In recognition of this threat, the Government has appealed to labor and industry to hold costs down by greater efficiency and wage stabilization. Such a policy, however, involves the British in a serious dilemma. Maintenance of strict wage control in face of an inevitable rise in the cost of living further impedes incentives to the all-important objective of increased production. Within two days after the devaluation, wholesale prices of many important industrial commodities, including cotton, nonferrous metals, and rubber, rose 15 to 20 per cent in terms of sterling. The expectation that these increases, as well as the higher price of bread, will be reflected in a rise in the cost of living has already created considerable pressure for wage

increases. As emphasized in a previous article, much depends on the Government's budget policy, for it is in the requirements for taxes and expenditures that there is a basic conflict between the objectives of a welfare state and the achievement of international balance.

Finally, Britain's potential external gains through devaluation must be considered in light of equivalent or retaliatory measures taken by other countries to protect their own export markets and their domestic price levels. Since most of the other nations with which Britain trades or competes for trade, other than the United States, followed her lead in depreciating their currencies, she must share her competitive advantage with them in the dollar area, and the prices of her exports and imports in her trade with them will be largely unaffected. The long-run prospects for more stable world trade as a result of the whole series of revaluations thus depends on the extent to which the relative changes in the various currencies, in terms of the dollar and of each other, represent adjustments to correct fundamental disparities in currency values rather than purely competitive action.

All the sterling area countries, with the exception of Pakistan, cut their local currencies in the same proportion as the pound—30.5 per cent. In other non-dollar areas the reaction varied. Some of those countries which devalued did so to a smaller extent than Britain, reflecting their relatively more favorable balance of payments positions. Some which have not devalued may follow if they find their trade adversely affected. Canada, the only member of the so-called "dollar area" to devalue, cut its dollar 10 per cent, partly to maintain trade with Britain and partly to bring the official parity closer to its free market value. Argentina, which has a multiple-rate schedule for various export and import categories,

PRINCIPAL ADJUSTMENTS IN CURRENCY VALUES SINCE SEPTEMBER 18, 1949

(Rates are official par values in U.S. cents per currency unit)

Area and Country	Currency	Old Rate	New Rate	Per Cent Devaluation
Sterling area:				
United Kingdom....	pound	403.	280.	30.5
Ireland.....	pound	403.	280.	30.5
South Africa.....	pound	403.	280.	30.5
New Zealand.....	pound	403.	280.	30.5
Australia.....	pound	322.4	224.	30.5
India.....	rupee	30.225	21.	30.5
Hong Kong.....	dollar	25.1875	17.5	30.5
Malayan Straits.....	dollar	47.0167	32.6667	30.5
Iraq.....	dinar	403.	280.	30.5
Iceland.....	krona	15.4111	10.7054	30.5
Other:				
Denmark.....	krona	20.8376	14.4778	30.5
Netherlands.....	guilder	37.6953	26.3158	30.2
Norway.....	krona	20.15	14.	30.5
Sweden.....	krona	27.778	19.3057	30.5
Finland.....	markka	.625	.435	30.4
Egypt.....	pound	413.3	287.156	30.5
Belgium.....	franc	2.2817	2.	12.3
France.....	franc	.368*	.2857*	22.4
Western Germany...	mark	30.	23.8095	20.6
Portugal.....	escudo	4.	3.48	13.5
Canada.....	dollar	100.	90.909	9.1
Italy.....	lira	.174*	.158*	9.2
Israel.....	pound	303.*	280.*	7.6
Greece.....	drachma	.01	.00667	33.3
Thailand.....	baht	10.	8.	20.0

*Effective export rate.

reduced the dollar value of the peso according to a new scale ranging to 46 per cent for some transactions.

Some of the devaluations, particularly by "hard currency" countries, resulted from the unexpected magnitude of the cut in the pound. Although sterling was selling on some free markets at approximately \$2.80, a reduction to that level was not generally anticipated and was criticized, particularly in Belgium and France, as being unnecessarily steep, thereby calling forth competitive reductions elsewhere. Nevertheless, given that whatever rate was chosen is more or less arbitrary, the preferable course was to devalue too much rather than too little. In the first place, it is important that the market be given assurance that no further devaluation will be necessary, and some underpricing of sterling adds to confidence in its future stability. It is hoped that this increased confidence will constitute an important first step toward the re-establishment of sterling convertibility. Secondly, the "excessive" amount of the cut allows some leeway for sterling prices to rise and still permit Britain to compete effectively in world markets.

IMPORTANCE OF UNITED STATES POLICY

Competitive depreciation is only one of the measures which may be used by other countries to protect their own positions. Direct controls over imports, tariffs, and export subsidies all have the same effect. The country most adversely affected, in a narrow sense, by the currency realignment which has taken place is the United States. The relative appreciation of the dollar will tend to encourage our imports and discourage our exports, perhaps exerting on balance a slight net deflationary effect on the domestic economy. It will undoubtedly give rise to pressures for higher tariffs for some industries, additional subsidies for certain products, and possibly even for devaluation of the dollar. Resort to such measures would completely nullify the corrective adjustments in the balance of payments which foreign devaluation, strongly urged by this country, was designed to produce. Retaliation here would almost surely lead to increased foreign dollar difficulties and to a second wave of devaluation abroad. A reduction in the United States export surplus is precisely what is needed to halt the worldwide dollar deficit and to bring to an end the need for a large amount of extraordinary United States financial assistance to foreign countries. The only defense against the deflationary repercussions of competitive depreciations is for the United States to hold firmly to the present value of the dollar, currently the greatest element of stability in the world economy.

The internal effects in the United States of such a development can easily be exaggerated. It is possible and desirable to have a smaller export surplus at a high level of trade and accompanied by reduced foreign need for United States financial assistance. Admittedly, one of the most important requisites to the restoration of balanced and multilateral world trade is economic stability in the United States; but that stability should be maintained in ways which will not require the sacrifice of

international economic objectives or a permanent need for United States foreign aid. Americans, as well as other nationals, stand to benefit by a high level of world trade. The fact that our present high export volume is to a large extent dependent on tax-supported foreign aid is too frequently ignored by those who seek protection from foreign competition both at home and in world markets. Unless the United States assumes responsibility for supporting the new currency rates by accepting price competition abroad and by reducing artificial barriers to imports, our export trade will be hit hard when the Marshall Plan ends.

DOLLAR TALKS YIELD BENEFICIAL RESULTS

The spectacular nature of sterling devaluation and the worldwide currency adjustments which followed it have largely overshadowed the seemingly minor significance of the agreement reached at the three-power economic conference in Washington a week earlier. The most important aspect of the dollar talks was not so much in their direct attack on the dollar crisis as in the establishment of a suitable environment in which a swifter and more powerful weapon, such as devaluation, could be used effectively. While the measures agreed upon were in themselves constructive, they alone could not have provided immediate or sufficient relief for Britain's dollar deficit. They did give Britain assurance of American help in solving a joint problem.

The measures agreed upon, as set forth in the communique on the conference, can be divided into two general categories: (1) those definite commitments which could be made effective immediately to relieve the drain on Britain's dollar reserves, and (2) other possible lines of action toward a long-range solution which require additional study and negotiation. The program is, for the most part, a summary of the things the United States can reasonably be expected to do, aside from additional dollar grants, to facilitate the expansion of dollar earnings by debtor countries. Nevertheless, in the course of the meetings there was a clear understanding that Britain would take steps to cut costs, increase production, and reduce inflationary fiscal pressures on her domestic economy.

Concrete steps were taken in four general areas which are expected to relieve the dollar drain:

(1) *Commodity arrangements and stockpiling.* The United States agreed to reduce Government protection of our synthetic rubber industry, thus opening to natural rubber an enlarged field for sales in this country. Canada announced its readiness to increase reserve stocks of rubber and tin, and the United States agreed to review its stockpiling program particularly with respect to these two commodities.

(2) *Limitations of the use of Marshall Plan Funds.* The United States agreed to permit Britain to "finance with its share of Economic Cooperation Administration funds a wider range of dollar expenditures." Under the Act establishing ECA, it was provided that these funds could not be used to purchase elsewhere commodities

which were declared to be "in surplus" in the United States. This provision has forced Britain to buy crops from the United States instead of from other countries where payment in dollars would not be required. After consultation between ECA Administrator Hoffman and Secretary of Agriculture Brannan it was agreed that 175 million dollars of ECA funds could be used in the current year for financing of United Kingdom purchases of wheat from Canada within the quota of the International Wheat Agreement. Modification of restrictions in the use of these funds is altogether desirable. Beneficiary countries should be encouraged to distribute their purchases so as to obtain the most economical use of their total dollar resources. Such a policy would reestablish the Marshall Plan for what it really should be—a program to aid European recovery, rather than a subsidy to certain sectors of the American economy.

(3) *Liberalization of intra-European trade and payments.* This point is closely related to the issue of greater freedom in the use of Marshall Plan dollars. Britain presented plans for increasing her trade with Western European nations with which she has no balance of payments deficit. The United States agreed that "the liberalization of United Kingdom import regulations should be considered" since a reduction of barriers to trade within Europe is one of the objectives of the ECA program and a means of reducing Europe's need for United States aid. Here, as in the previous provision, it should be noted that although such a request may appear contrary to particular United States interests, it may be beneficial to the extent that European recovery is facilitated by freer intra-European trade.

(4) *Customs procedures.* The United States declared its intention to simplify customs procedures through administrative action and proposed legislation. It is expected that revision of complex and uncertain customs regulations, in themselves a barrier to the sale of foreign commodities in this country, will augment Britain's dollar earning capacity.

OTHER PROPOSALS REQUIRE FURTHER STUDY

The remaining points covered by the agreement were largely concerned with matters which are recognized to be important in the achievement of a long-run solution, but which require further examination and planning:

(5) *Overseas investment.* All three countries promised to explore the prospects for the flow of productive investment, both public and private, from North America abroad, particularly to underdeveloped areas.

This provision is essentially a restatement of "point four" of President Truman's Inaugural Address involving technical assistance as well as capital investment. The aim of such a program is to place underdeveloped countries in a position to become better markets for both European and American goods. While it has perhaps the most promising potentialities for resolving the basic problems of unbalanced world trade, it is a task which will take decades. Moreover, if it is to involve the contemplated degree of private investment, it will

require a much higher degree of world political and economic stability than now obtains. In the long run even investments must be balanced by imports, at least to the extent of interest payments, and the all-important unknown in the success of a large-scale investment program is whether American demand for foreign goods would be sufficiently expanded to prevent default. This involves more than simply that we should act like a creditor. It involves efficient production by debtor nations of goods Americans want.

(6) *Tariff policy.* Even increased productive efficiency, of course, will not enable debtor countries to achieve a balance if their markets in creditor nations are obstructed by artificial barriers. The United States promised additional efforts to reduce tariffs through further negotiation of trade agreements under the recently renewed Reciprocal Trade Agreements Act.

(7) *Sterling balances.* The difficult problem of how to handle the accumulated wartime debts to non-dollar countries was listed for further study. These sterling balances are a continued source of pressure on Britain's reserves and a deterrent to convertibility. Repayment of such balances through exports have used up resources which could otherwise have been converted into dollar earnings and have, in effect, meant the diversion of Britain's resources to other creditors.

(8) *Petroleum.* Further investigation will also be conducted as to ways in which Britain's large deficit in oil transactions can be cut.

(9) *Shipping.* Under present regulations, at least half of ECA shipments to any country must be carried in American vessels. This is one of the factors which was held down Britain's ability to earn dollars through her shipping services. Ways in which this element in her balance of payments position can be restored to its historically important role will be further considered.

(10) *Provisions for continuing consultation.* The three governments agreed to arrange for further consultations both to review the effectiveness of actions already taken and to prepare measures which would carry further any adjustments considered necessary.

Although the ten-point program appears to be made up of a list of American concessions, it may, nevertheless, represent the least costly way of aiding European recovery. A satisfactory solution to the balance of payments problem is important to the United States. We cannot withdraw our cooperation from Britain and other democratic countries for political as well as economic reasons. As stated earlier, neither the devaluation nor the agreements reached at Washington constitutes a final solution. There are a great many necessary adjustments with respect to internal economic policy which British efforts alone can accomplish. Given these, American aid in the ways outlined above is not overgenerous. American interests will be best served by the adoption of a long-range policy which will enable Western Europe to become independent of our continuing financial support. Toward this end consistent policy requires that we resist pressures for domestic action which would weaken the force of the progress already made.

State Aids to Local Government

Postwar Increases Shift Fiscal Burden of Major Local Functions

In the Seventh District states, as in many other states throughout the nation, probably the most controversial of the major fiscal policy issues that were treated by 1949 legislatures were those involved in efforts to shift larger portions of the costs of the functions performed by local governments to the States. During the last five years, but particularly in 1949, increasing shares of the costs of two expensive local functions commonly held to be of state-wide, or even nationwide, interest—schools and roads—have been assumed by many state governments. Increased aids for other services, notably welfare, housing, and public health, have also been enacted during recent legislative sessions.

The trend toward intergovernmental redistribution of the fiscal burden of government services, has been accentuated by the impact of inflationary pressures. Cyclically and secularly rising costs have outrun local revenue systems which, based largely on the taxation of real and some tangible personal property, but slowly and incompletely reflect higher levels of income and prices. In Seventh District States, as elsewhere, increased local

sharing of the revenues derived from the broader state tax systems has been widely proposed and often adopted, in addition to direct grants-in-aid from state funds for the support of specific local functions.

Substantial state aids to local governments were not in evidence until the 1920's, when the emergence of the automobile as a widely-used means of transportation produced a period of rapid construction of highways, much of it done by the counties and other local units aided or reimbursed by state grants. In most of the more populous states, school aid programs were developed in the same period. The depression of the 1930's and the passage of the Social Security Act caused rapid and widespread adoption of aids for public welfare programs. Important aids for other functions, such as public health, housing, airport construction, and public works planning, are largely phenomena of the past few years. State-local tax-sharing increased in spurts from about 1920 to 1940; since then the increase has been rapid and continuous, averaging more than 15 per cent annually, and has involved an increasing number of states and taxes.

TABLE 1
STATE AID AS PERCENTAGES OF TOTAL
STATE TAX REVENUES

Fiscal 1920-51¹

Year	Illinois	Indiana	Iowa	Michigan	Wisconsin
1920	19	30	12	37	21
1921	14	24	4	46	37
1922	19	22	4	33	37
1923	23	18	3	38	43
1924	19	20	2	31	42
1925	18	20	4	39	42
1926	12	25	12	35	44
1927	13	25	15	37	48
1928	12	26	20	31	47
1929	13	24	20	37	56
1930	9	21	23	30	51
1931	23	21	26	37	48
1932	36	24	25	42	62
1933	40	34	29	46	60
1934	42	45	40	58	60
1935	48	47	29	59	61
1936	44	45	26	56	65
1937	44	44	23	53	63
1938	39	49	24	52	66
1939	47	51	23	58	70
1940	44	51	24	54	70
1941	40	47	23	48	65
1942	28	46	21	47	61
1943	24	51	21	48	67
1944	18	52	21	51	62
1945	19	51	20	46	64
1946	13	46	19	51	60
1947	31	42	26	53	59
1948	29	43	25	53	59
1949 ²	29	41	24	58	60
1950 ³	36	51	35	60	60
1951 ⁴	38	54	35	60	60

¹State aid data used in above computations include shared taxes but exclude redistributions of Federal aid; state taxes are net of refunds and exclude payroll taxes earmarked for unemployment compensation.

²Subject to revision.

³Estimate.

DIFFERENCES IN ALLOCATION OF FUNCTIONS

A major limitation on the validity of comparisons of state policies in regard to aid to local governments lies in the interstate differences in the allocation between the states and their local units of the fiscal and administrative responsibility for the more costly services that governments provide. States in which legislatures have inaugurated major new programs of governmental services in the past few decades and assigned the performance of these functions to their local subdivisions, can be expected to exhibit higher level of aids than states in which the state governments have assumed the direct responsibility for providing the new services.

The differences in the allocation of the welfare function most clearly illustrate the problem of non-comparability. About two-thirds of the states provide for direct state administration and financing of the Federally-aided public assistance programs (old-age assistance, aid to the blind, and aid to dependent children). The remaining states have local (mostly county) administration and substantial local fiscal contributions, usually one-fourth of the total assistance. In the Seventh District, large welfare aids would not be expected in Illinois, Iowa, and Michigan which have direct state responsibility for these programs; Indiana and Wisconsin allocate most of this function to the localities and thus necessarily have substantial welfare aids. The welfare aids in the tables for Illinois and Michigan are largely for the local general relief programs.

An additional element of non-comparability is found in certain structural differences in state-local tax systems which exist in the District States. In both Michigan and Wisconsin, the legislatures have removed most public utility property from the local tax base. State agencies directly assess and collect property taxes on public utilities, and return the bulk of the collections to the local units. This tax-sharing appears in the data as state aid to local governments; more accurately, it is a reimbursement for losses due to the removal of a portion of the tax base that localities in the other District states continue to possess.

ILLINOIS

During the recent legislative sessions, legislatures of all of the District states voted substantial increases for common school aids. In Illinois the appropriation was 60 per cent higher than that made by the previous General Assembly, and it is estimated that state funds will now cover from 20 to 25 per cent of the State's total school costs as compared to about 15 per cent for the fiscal year 1949.

In Illinois, as elsewhere, the State acknowledged an interest in common school education early in its history and began, in 1836, to appropriate money for grants to local school districts. These were expanded, and except for nominal payments for aid to county fairs begun in 1909, constituted the only object of state aid until section 15d was added to the State Highway Act in 1915. The present policy of distribution consisting of flat grants and equalization payments was inaugurated in 1927. Grants have been continuously increased and extended since that date. In addition to these general aids, the State reimburses the local districts for various portions of the cost of maintaining classes for handicapped children, transporting pupils, conducting vocational education programs, and providing school lunches.

The first program of highway aid, enacted in 1915, specified that the State would reimburse the counties for one-half of the cost of construction of county roads. The State was not able to meet the annual claims from motor vehicle license fees. In 1931 and thereafter, appropriations of 2.5 million dollars have been made in each biennium to cover this obligation which amounted to 25 million; it will be liquidated by the end of the present biennium.

With the adoption of the three-cent gasoline tax in 1929 came the first significant grants for local highway function. The State, counties, and municipalities share equally in the net proceeds from this source. Although the townships and road districts (in non-township counties) do not share in the gas tax, 7.5 million annually was available from General Fund revenues for township roads during 1945-49. This appropriation was not renewed by the 1949 Legislature. Since 1938, state-collected highway-user revenues have accounted for about 64 per cent of total funds spent for highways.

In 1929, the State entered the field of public welfare by providing for a reimbursement of one-half of the

payments made by counties for mother's aid and blind relief. Both of these programs are now the financial responsibility of the State—the former undertaken in 1941, and the latter in 1943. Old-age assistance was assumed by the State at its inception in 1936. At present, only general relief remains a locally administered function, but about 75 per cent of the total relief costs come from the state funds. The State supplies the difference between actual expenditures and the yield from the property tax levy of one-tenth of one per cent, except for Chicago where the State pays for expenditures exceeding four million dollars. In addition the counties are reimbursed for one-half of the cost of the care of dependent, neglected, and delinquent children.

In 1945, state payments were initiated to encourage more extensive local participation in the field of public health. Each successive legislature has enlarged the scope of this program and the 1949 legislature provided for two new programs—aid to tuberculosis patients and aid for construction of tuberculosis sanatoria. Local units may obtain state and Federal assistance for hospital construction provided they can assure the Department of Public Health that their resources will be adequate to raise one-third of the funds required for construction and be able adequately to maintain and operate the hospital after completion.

With the passage of the Federal Airport Construction Act, the State made available to the localities assistance for airport construction. Two programs which were not continued by the last legislature provided for aid to local units for development planning and for land clearance. All of the grants-in-aid in Illinois are for a specific purpose and tax-sharing for general purposes of the type found in Michigan and Wisconsin is not found. A proposed general purpose aid program, providing for 34 million dollars to be distributed to the cities on a per capita basis, was defeated in the recent session.

INDIANA

The history of the development of state aids in Indiana follows a familiar pattern. Educational aids date back to 1849; however, not until the mid-1930's have state payments constituted a significant proportion of the total school costs.

In 1920, the state distribution based on per capita and equalization grants approximated 10 per cent of total school costs. With the adoption of the gross income tax in 1934, the State also guaranteed a percentage of the average minimum salary paid by a teaching unit. Payments on this basis were steadily increased and in recent years 40 per cent of the total school costs was furnished by the State. It is estimated that in the 1950-51 biennium, the amount of money spent for local schools from state sources will approximate 50 per cent.

Although not as large in dollar amounts, the responsibility, in terms of the proportion of funds furnished, assumed by the State for local highways and streets is more extensive than that for education. Since 1932, county expenditures for highways have been re-

TABLE 2

AIDS TO LOCAL GOVERNMENTS IN THE SEVENTH DISTRICT STATES

Fiscal 1945-51

(Amounts in millions of dollars)

Area	Grand Total	State Sources							Federal Aid Redistributed (Total) ¹	Area	Grand Total	State Sources							Federal Aid Redistributed (Total) ¹
		Total	Shared Taxes ¹	Educational ²	Highway	Welfare ³	Health	All Other ⁴				Total	Shared Taxes ¹	Educational ²	Highway	Welfare ³	Health	All Other ⁴	
District States Total																			
1951 Est.	706.8	644.0	100.3	293.1	170.4	58.3	13.2	8.7	62.8	Iowa ⁵									
1950 Est.	701.1	638.4	100.3	287.4	170.5	58.3	13.2	8.7	62.7	1951 Est.	48.7	47.1	1.7	17.6	27.6	—	—	—	1.6
1949*	619.9	564.3	108.8	242.4	143.8	50.5	7.9	10.9	55.6	1950 Est.	48.7	47.1	1.7	17.6	27.6	—	—	—	1.6
1948	558.8	508.8	103.7	202.2	136.7	42.0	7.1	17.1	50.0	1949*	36.1	34.7	1.1	11.6	21.8	—	—	—	1.4
1947	472.6	431.2	82.6	163.8	139.2	32.2	4.3	9.1	41.4	1948	35.0	33.8	2.0	7.4	24.3	—	—	—	1.2
1946	342.9	316.7	63.5	121.7	88.6	27.3	4.8	10.8	26.2	1947	31.0	29.6	—	5.4	24.1	—	—	—	1.4
1945	310.6	281.0	51.9	112.3	86.1	24.4	3.8	2.5	29.6	1946	15.5	15.1	—	3	14.7	—	—	—	1.4
										1945	14.5	13.7	—	4	13.2	—	—	—	.8
Illinois⁶										Michigan⁷									
1951 Est.	168.1	156.2	—	64.9	57.2	22.5	6.8	4.8	11.9	1951 Est.**	243.9	240.5	46.9	135.2	42.8	10.5	4.6	.5	3.4
1950 Est.	162.4	150.5	—	59.2	57.2	22.5	6.8	4.8	11.9	1950 Est.	243.9	240.5	46.9	135.2	42.8	10.5	4.6	.5	3.4
1949*	127.6	118.6	—	45.8	40.7	19.8	2.6	9.7	9.0	1949*	237.9	234.5	47.5	132.7	40.6	9.6	3.5	.6	3.4
1948	112.6	105.9	—	38.3	34.2	14.3	3.1	16.0	6.7	1948	204.1	200.7	46.4	103.2	40.2	7.6	2.7	.6	3.4
1947	104.7	99.0	—	36.7	45.1	8.9	1	8.2	5.7	1947	168.2	164.0	37.1	78.6	39.4	5.2	3.1	.6	4.2
1946	48.3	46.5	—	17.4	12.6	6.6	.1	9.8	1.8	1946	132.5	129.7	23.5	63.4	33.7	4.7	3.7	.7	2.8
1945	46.1	42.7	—	23.1	11.1	7.2	—	1.3	3.4	1945	101.9	98.6	11.2	52.2	29.8	2.2	2.6	.6	3.3
Indiana⁸										Wisconsin¹⁰									
1951 Est.	110.9	89.0	2.0	53.4	24.0	9.0	.6	—	21.9	1951 Est.	135.2	111.2	49.7	22.0	18.8	16.3	1.0	3.4	24.0
1950 Est.	111.0	89.1	2.0	53.4	24.1	9.0	.6	—	21.9	1950 Est.	135.1	111.2	49.7	22.0	18.8	16.3	1.0	3.4	23.9
1949*	90.2	69.3	2.0	37.1	22.5	7.1	.6	—	20.9	1949*	128.1	107.2	58.2	15.2	18.2	14.0	1.0	.6	20.9
1948*	90.7	69.7	2.3	37.3	22.2	7.4	.5	—	21.0	1948	116.4	98.7	53.0	16.0	15.8	12.7	.7	.5	17.7
1947	72.0	57.2	2.2	32.1	15.2	7.4	.3	—	14.8	1947	96.7	81.4	43.3	11.0	15.4	10.7	.7	.3	15.3
1946	65.2	54.6	2.0	29.7	15.3	7.3	.3	—	10.6	1946	81.4	70.8	38.0	10.9	12.3	8.7	.6	.3	10.6
1945	62.5	51.0	1.9	26.0	15.2	7.2	.4	.3	11.5	1945	85.6	75.0	38.8	10.6	16.8	7.8	.7	.3	10.6

¹Include only those taxes distributed to localities without state-imposed restrictions on expenditures. Amounts earmarked for specific functions (e.g. education and highways) are classified as aids.

²Does not include state contributions to teachers' retirement systems except in Illinois where allotment is made to the Downstate Teachers' Retirement System out of the downstate school district's portion of the Common School Fund.

³In Illinois and Michigan consists chiefly of aids for local relief; in Indiana and Wisconsin includes state portions of locally-administered categorical programs.

⁴Reimbursements to local units for loss of revenue resulting from various state-imposed exemptions in reality constitute aid to individual taxpayers and are not included as state aids.

⁵Includes Federal aid for vocational education, rehabilitation, and public health expended by local units. For Indiana and Wisconsin also includes Federal portion of categorical programs.

⁶Illinois: *Education*—Common School Fund distributions, and state funds for vocational education, school lunches, and classes for handicapped children. *Highway*—Motor fuel tax distributions to counties and municipalities, annual appropriation from general tax revenues of 7.5 million during 1946-49, and reimbursements for certain county roads (15d refunds). *Welfare*—One-half of the county costs incurred in caring for dependent, delinquent, or neglected children and the difference between actual expenditures for county poor relief and the proceeds from the tax levy specified by statute. *Health*—Aid to local health departments (1946-51), aid for hospital construction (1948-51), and aid for tuberculosis patients and tuberculosis sanatoria inaugurated by 66th General Assembly. *All Other*—Aids for county fairs and county veterinarians (1945-51), postwar planning (1946-51), slum clearance (1946-49), and airport construction (1945-51). *Federal Grants*—Prior to 1946, aids for health purposes included in this total estimated by the Department of Public Health. Estimates based on both receipts for existing programs and those presently pending in Congress.

⁷Indiana: *Shared Taxes*—County share of the intangibles' tax (22½ per cent) and two-thirds of proceeds from liquor licenses distributed to city or county of origin. *Education*—Distribution based on a fixed percentage of average minimum salary per teaching unit and equalization grants made to "distressed schools." Also, grants for vocational education and handicapped children's classes. *Highways*—From 1945 to 1949, counties received \$12,200,000 from highway-user revenues, less such amounts as counties redistributed to cities, plus, in each quarter, any amount in excess of \$7,500,000 in the motor vehicle highway account. During 1950 and 1951, the counties will receive 32 per cent of the excess over \$22,600,000. In 1948 and 1949, 10 million dollars distributed to counties, cities and towns for highway purposes from cigarette tax fund. *Welfare*—60 per cent of the non-Federal cost of old-age assistance and aid to dependent children programs; reimbursement to counties for portion of administrative costs for program.

⁸Iowa: *Shared Taxes*—Beginning in 1948, five per cent of the gross sales of state liquor monopoly. *Education*—Flat rate grants per pupil in average daily attendance (1948-51), equalization aid (1947-51), aid for transportation (1947-51) and aids for rural and consolidated schools (1945-51). *Highway*—Counties' share (four-ninths) of the three-cent gasoline tax (1945-49) and the one-cent tax, three-fifths of which goes to counties and two-fifths to cities (1947-49); beginning in 1950, includes the counties' 35 per cent and the cities' eight per cent of tax collections deposited into the Road Use Tax Fund (all highway-user taxes and a portion of sales and use taxes); prior to 1950 the motor carrier license tax dis-

tributed to counties and the amounts needed for debt service on primary road bonds. *All Other*—Aid for county fairs.

⁹Michigan: *Shared Taxes*—Land Office Board distributions (1945-51); alcoholic beverage sales tax to cities distributed on a population basis (1945-47); 85 per cent of liquor retailers' license to city or township of origin (1945-51); severance tax (1945-51); one-eighth of proceeds of general sales tax to cities and townships (1947-51); 50 per cent of pari-mutual tax to city of origin (1947-51); and miscellaneous small taxes. Excludes veterans' homestead exemption reimbursements. *Education*—Grants from specific taxes (1945-50), supplemental grants to school districts (1945-51), the school district share of the general sales tax, reimbursements for transportation, day schools for handicapped children, and vocational education, and grants for library purposes, county normal schools, adult education and miscellaneous minor programs. *Highways*—Entire proceeds of the weight tax and \$6,550,000 of the gasoline tax to counties, balance of the alcoholic beverage sales tax after distribution to cities (1945-47), 50 per cent of the pari-mutual tax (1945-47), and grants for snow removal and postwar planning. *Welfare*—State's portion of general relief expenditures (1945-51). *Public Health*—Public health service grants (1945-51), aid to tuberculosis patients (1945-51) and postwar planning grants.

¹⁰Wisconsin: *Shared Taxes*—Income tax and railroad and public utility distributions to counties and municipalities, municipalities' share of liquor taxes, highway privilege tax (other than portion allotted to Milwaukee), insurance, and forest crop taxes. Does not include local shares of state-imposed locally collected taxes. *Education*—Prior to the passage of the comprehensive school aid program by the 1949 General Assembly, flat grant elementary school aid (1945-49), elementary school equalization (1945-49), high school aid (1945-49), and high school equalization (1948-49). Also, transportation aids (1945-51), state grade school aid (1945-47), county normal and agricultural school aids (1945-51), reimbursements for handicapped and defective children and vocational education, school districts' share of utility and forest crop taxes, and Milwaukee's share of the highway privilege tax. *Highway*—Grants from highway-user revenues for local roads and streets, maintenance of connecting streets, swing and lift bridges, county trunk highway, flood damage aids, and payments for debt service of county bonds issued for the state primary system. Also supplemental grants for 1947-51. *Welfare*—Largely reimbursements for State's share of payments made to individuals under the categorical programs and for administrative costs incurred therein. Also, grants to county mental hospitals. *Public Health*—Grants to county tuberculosis sanatoria and reimbursement to counties for portion of salaries paid public health nurses. *All Other*—Grants to local housing authorities (1950-51), and aid to county forests (1945-51), county fairs (1945-50) and airport construction (1948-59).

*Subject to revision.

**All of the District States, with the exception of Michigan, prepare biennial budgets. Estimates for Michigan for 1950 are repeated for 1951.

SOURCES: Illinois: *Annual Report of the Department of Finance, The Illinois State Budget* (biennial), *complete Text of Appropriations, Regular Session 66th General Assembly* (biennial). Indiana: *Year Book* (annual), *Statistical Report* (compiled annually by the State Board of Accounts), *State of Indiana Budget Report* (biennial) and Office of the Budget Director. Iowa: *Iowa State Budget* (biennial), *Report of the Auditor General* (annual), *State of Michigan Budget* (annual), and *Statement of Legislative Appropriations*. Wisconsin: *Biennial Report of the Treasurer of the State of Wisconsin, Wisconsin State Budget* (biennial), and *Taxes and State Aids* (annual series of the Department of Taxation).

stricted to state-collected highway-user revenues and tax rate limitations have been placed on city road and street levies. In recent years 80 per cent of local highway disbursements were made from state revenues whereas two decades earlier the proportion from state sources was 25 per cent. Indiana cities, as those elsewhere, have been petitioning the state legislature for additional revenues for war-delayed street improvements. A grant of two million dollars was made for this purpose in 1948 and 1949 from cigarette tax revenues (an additional eight million dollars from these funds was paid to the counties). This was discontinued for the coming biennium but the cities will share in the increased motor vehicle license tax collections voted by the 1949 legislature.

During 1934-39, the State administered the general relief programs; however, since that time this responsibility has reverted to the local units. The old-age assistance and aid to dependent children programs are administered by the counties, the state providing 60 per cent of the non-Federal cost. State grants for this purpose are approximately 15 per cent of total state aids.

Aids to Indiana localities have been supplemented by the county and county-city shares of the intangibles tax and liquor license taxes. In recent years, this revenue has amounted to about two million dollars annually, but it has never been more than five per cent of total state aids.

IOWA

Although assistance to local units for highway purposes in Iowa historically has been high, on the whole grants-in-aid and shared taxes have constituted smaller portions of state revenues than in most other states. From 1920 to 1946, nearly all state-aid payments comprised local shares of highway-user taxes and debt service on primary road bonds issued by the counties to finance state highway construction. Neither of these items are strictly comparable to similar aids in other states. Constitutional difficulties prevented the State from incurring debt to finance primary highway construction at a rate rapid enough to meet the need, and the counties therefore undertook to administer and finance highway construction, subject to future reimbursement from state revenues. For much of the period, Iowa's state highway system excluded a considerable amount of road mileage that is usually in state systems. Shared tax revenues were thus in reality payments to the counties for the construction and maintenance of primary roads.

During the postwar period, particularly since 1947, the existing aid programs have been expanded and new ones have been introduced, resulting in a very great increase in the ratio of aids to total tax revenues. The most spectacular expansion has been in the sphere of school aids. Beginning in 1947, succeeding years have witnessed the establishment of a system of general school aids, including equalization grants, and aids for school transportation and for the education of handicapped children. Aids from state sources for education increased

from totals of less than 500 thousand dollars in fiscal 1945 and 1946, to an estimated 17.6 million dollars in fiscal 1950. Six million dollars of this increase was enacted in the 1949 session.

State-aid payments for street and road purposes have similarly experienced a great increase in the past few years. For more than twenty years, Iowa counties have received four-ninths of the three-cent gasoline tax and one-half of the motor carrier taxes; in the fiscal years 1947-49, the counties and municipalities divided the net proceeds of an additional one-cent gasoline tax. The 53rd General Assembly, in 1949, completely revised Iowa's highway finances, establishing a Road Use Tax Fund, into which is to be deposited the entire net receipts from the gasoline tax, motor vehicle registration taxes, and the tax on motor carriers, all use taxes on motor vehicles and motor vehicle equipment, and ten per cent of sales tax receipts. Thirty-five per cent of the total receipts of the Road Use Tax Fund is to be distributed to the counties on an area basis for secondary road construction. Eight per cent is to be distributed to cities and towns on the basis of population for street construction. Estimates for the current fiscal year indicate that this will result in a substantial increase in the amounts distributed to local governments.

Iowa is somewhat unique with respect to three institutions often improperly classified as aids to local governments—the homestead credit, the military service tax credit, and the agricultural land tax credit. A significant portion of state funds is utilized for the purpose of reimbursing local taxing districts for the losses of property tax revenues caused by the General Assembly's having exempted certain classes of property from local taxation. Exemptions have been granted to homesteads (up to \$2500 in value) and to specified amounts of the property of war veterans, and certain of their heirs. In addition, agricultural land has been exempted from school taxes in excess of 15 mills per dollar of value. The latter has had a stormy judicial history which has not yet been ended. Subject to certain ceilings, the reimbursements are directly related to the tax losses suffered by the localities, and therefore can be classified as tax relief for individuals, rather than as aids to local governments.

MICHIGAN

During the war years, the Michigan local units of government, hard pressed for additional revenues, have sought financial salvation through the diversion of part of the inflation-swollen state sales tax yields for local purposes. Instead of seeking increased appropriations for functions of major interest on a year to year business, local governments succeeded in efforts to pass the 1946 constitutional amendment which earmarks one-sixth of sales tax proceeds for school districts and one-sixth for cities, villages, and townships, and directs that other school grants paid from sales tax revenues in succeeding years must bear the same ratio to the sales tax yield as those distributed in 1945, or a ratio of about 44.6 per

cent. At the present time, 60 per cent of the Michigan state tax revenues are expanded by the local units. Of the total distributed 56 per cent is spent for education, 20 for general government, 18 for highways, 4 for welfare, and 2 per cent for public health.

Michigan school aids date back to 1835 and stem from a constitutional provision which, in effect, earmarks practically the entire proceeds of the specific tax revenues for distribution to school districts. In the early 1920's, about one-third of the tax revenues was utilized for common schools and these grants represented approximately ten per cent of the total educational costs. Currently about a third of state revenues is still devoted to school aids, but these represent about 60 per cent of total school costs. This places the State of Michigan in the position of assuming a higher degree of responsibility for local educational costs than any other District State.

There have been no major changes in the distribution of highway-user revenues to the local units in the last few years. Since 1930, the counties have received the entire proceeds from the motor vehicle license fees (weight tax) and since 1941 an appropriation of 6.5 million dollars from the gasoline tax.

Like Illinois and Iowa, Michigan has undertaken the administration and financing of the categorical public assistance programs. In Michigan, counties may participate in the aid to dependent children program and the State matches any additional funds made available by the counties.

Although Michigan local units are responsible for local relief, the State has a greater administrative responsibility for this function than Illinois and has approximately the same degree of financial responsibility. The entire cost of county infirmaries, adult hospitalization, and administration is borne locally and the State guarantees one-half of the remaining expenditures. However, the State may assume a greater portion of the cost in counties where relief costs are disproportionately high compared to their financial resources. During the depression years, about 65 per cent of the total relief costs were paid by the State and recently the state revenues have constituted from 40 to 50 per cent of the total.

Public health aids of the type recently adopted in Illinois are not new in Michigan. Per capita grants for tuberculosis patients were established in 1925, and grants to county and city public health services in 1930. These grants amount to only two per cent of the total state aids.

WISCONSIN

State-local fiscal relations in Wisconsin for almost 40 years have been characterized by close integration between the tax systems of the state government and its local subdivisions. The State's moves into the fields of income and excise taxation were accompanied by sharing of the proceeds of the new taxes with its localities. This shared-tax revenue has been available to the local units without restriction as to the uses to which it can be put, and has been a major item of revenue,

amounting in 1948, to almost one-fourth of all local government tax revenues. The major shared taxes have been the individual and corporation net income tax, railroad and public utility property taxes, the motor vehicle license or "highway privilege tax," and liquor taxes.

Local tax systems such as that typical in Wisconsin have reflected the high income and price levels of the past few years more rapidly than those based more heavily on real and personal property taxation. As a result, Wisconsin local units have not generally faced fiscal difficulties as acute as those common elsewhere since the war's end. However, some units, particularly high per capita income suburbs and communities in which substantial amounts of public utility property are located, have received a superabundance of shared tax revenues. On the other hand, core cities of metropolitan districts have fared relatively badly under existing bases of allocating shared taxes.

School districts, which receive very little assistance from state tax-sharing, have increasingly depended on state grants to meet rising costs of operation. The 1947 Legislature provided substantially increased amounts for equalization grants, high schools, transportation of pupils, education of handicapped and defective children, and other school aid programs. For the current biennium (1949-51), the Legislature developed a new comprehensive school aid program and enacted appropriations approximately 50 per cent greater than those for the previous biennium.

Two other major local functions have caused serious difficulties due to rising costs—welfare and highways, both of which, like schools, had been receiving substantial state grants-in-aid (welfare since the mid-1930's, and highways since the mid-1920's). Since the major welfare aids, those for the categorical public assistance programs, are paid as a percentage of county expenditures, state aid for this function has continuously increased without any important additional positive action on the part of the Legislature. In 1947, a program of supplemental highway aids was inaugurated, to augment the existing aids to the counties for county trunk highways and to the municipalities for local roads and streets.

In the closing days of the 1949 Legislature, a law providing for significant state expenditures for veterans' housing was enacted. In general, housing grants to local housing authorities are limited to 20 per cent of the funds available, which should equal almost 12.5 million dollars in fiscal 1950.

Shared taxes and grants-in-aid from state taxes have comprised more than one-half of total state-tax revenues since 1921. The loss in the local shared-tax revenues during the depression was offset by increased state grants-in-aid. During the past 10 years, total aids and shared taxes have been between 60 and 65 per cent of state tax revenues. The increased importance of grants-in-aid relative to shared taxes will provide a greater measure of stability to local government fiscal resources in the event of any possible significant decline in state-tax collections.

SEVENTH FEDERAL



RESERVE DISTRICT

