The Allocation of Federal Aid Monies: The Synthesis of Demand-Side and Supply-Side Explanations

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The Allocation of Federal Aid Monies: The Synthesis of Demand-Side and Supply-Side Explanations

ROBERT M. STEIN
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Previous research on the distribution of federal aid monies has been dominated by the donor's perspective. Different distribution formulas, political influence of congressional representatives, bureaucrats, and individual aid recipients have been studied as the sole determinants of aid allocations. Each explanation, however, fails to examine the question of aid allocations from a demand-side perspective. This omission assumes that all governmental units are equally desirous of federal assistance and that any bias in the distribution of federal aid is a function of supply-side conditions. Identifying a linkage between demand-side and supply-side determinants of aid allocations, this article proposes and tests hypotheses derived from an integrated model of federal aid allocations.

The current debate over the allocation of federal aid to state and municipal governments has produced a number of attempts at explaining who gets what, where, when, and how (Havenman et al., 1976). The dominant explanatory approach has been to adopt the perspective of the donor—the federal government. Here, different distribution formulas, political influence of congressional representatives, bureaucrats, and individual recipients have been studied as determinants of aid allocations. Each explanation, however, fails to examine the question of aid allocation from a demand-side perspective. This omission assumes that all governmental units are equally desirous of federal assistance and that any bias in the distribution of federal aid is a function of supply-side conditions.

Identifying a linkage between demand-side and supply-side determinants of aid allocations, this article proposes and tests hypotheses derived from an integrated model of federal aid allocations. The following questions serve to further focus this study:

1. What has been the historical pattern in the allocation of federal aid? Has federal aid been allocated equally to all recipients or has there been a specific bias in the pattern by which federal monies are distributed?

2. How has the grant application process (i.e., demand behavior) affected the distribution of federal aid to municipal governments?

3. To what extent does the degree and nature of prior experience with the federal aid system structure grant seeking and receiving?

Supply-Side Explanations of Aid Allocations

Supply-side explanations of federal aid allocations have emphasized the donor's perspective (i.e., that of the federal government), often at the neglect of the recipient's viewpoint. Supply-side theorists, however, have not been uniform in identifying determinants of federal aid outlays. Congressional scholars (Anagnoson, 1979; Ritt, 1976; Strom, 1975; Murphy, 1974; Ferejohn, 1973, 1972) have long argued that representatives with key committee appointments, seniority, and other positions of relative power, use their influence to obtain a disproportionate amount of the federal largesse for their congressional districts. In spite of the intuitive appeal of this hypothesis, supporting evidence has been lacking. The chronology of research findings suggests a waning of traditional political influences on the allocation of federal aid monies.

A recent trend in supply-side explanations of aid outlays has been the substitution of bureaucratic for congressional authority over the distribution of federal largesse (Anagnoson, 1978; Gilbert and Specht, 1974). A majority of aid programs delegate responsibility for awarding assistance to agency administrators (Anagnoson, 1978, p. 34). Research on bureaucratic influence suggests that administrators use their authority in a timid and non-systematic fashion. Studying
EDA's public works program, Anagnoson observes (1978, p. 34):

The criteria the agencies use to select projects reinforces the restraints through their vagueness and ambiguity...the standards the regional directors use are so loosely specified that they do not determine the final distribution of projects.

Even in instances where administrators engage in overt and specific targeting of aid, there is little evidence to support the success of their efforts. Gilbert and Specht (1974) found that Model Cities grants allocated on the basis of the "applicants most likely to achieve Model Cities Program objectives," failed to achieve the desired outcome. The results indicated that cities awarded Model Cities monies were no more likely to achieve the desired level of performance than non-recipients.

A Demand-Side Explanation of Aid Allocations

Each of the supply-side explanations assumes that (1) all municipal governments are capable of applying for federal aid monies and (2) that those municipalities outside the federal aid system have no specific need or, for reasons of political preference, choose not to apply for federal aid. A number of researchers have suggested that not all potential recipients are equally capable of seeking and receiving federal assistance. Porter, Warner, and Porter (1973), Saltzstein (1977), Gabris and Giles (1978), Reed and Green (1978), and Stein (1979) have empirically demonstrated that there are significant obstacles to grant seeking which indirectly structure allocation patterns. Certain non-transferable costs (i.e., application, implementation, and opportunity costs) confront the potential applicant for federal assistance. These costs adversely affect grant seeking activities of smaller, fiscally and socially neeider communities, effectively eliminating them from the pool of eligible aid recipients and reducing the potential for equalization in the allocation of federal monies.

Many needy and desirous municipalities find the costs of seeking and receiving grant assistance greater than the potential benefits of participation in the federal aid system. The costs associated with grantsmanship, however, do not operate independently of supply-side factors to structure grant allocations. Demand theorists have essentially described a process in which potential applicants respond to specific conditions of the grant system. Matching requirements, administrative oversight, and requisite program activities provide the basis upon which potential applicants decide whether or not to seek and/or receive federal aid.

An Integrated Explanation of Grant Allocations

Proponents of a demand-side explanation of grant allocations have provided an important insight into the operation of municipal grant-seeking activities. However, there remains a significant gap in their research. How does the application process operate to structure grant seeking over time? Specifically, what is the nature of the process operating to encourage or discourage communities from seeking grant assistance at one time, while producing the opposite effect on grant-seeking activities at some later time?

The administrative structure of federal aid programs gives the prospective applicant information with which to assess the merits of seeking and receiving federal assistance. Certain aid packages stimulate grant seeking, while other aid programs have either a neutral or negative effect on grantsmanship. Project grants require formal applications and are competitively awarded by administrative officials. In varying degrees, matching expenditures and compliant policy behavior are required of all aid recipients. Consequently, some communities find project grants difficult to apply for and politically undesirable to accept. Revenue sharing and block grant aid mechanisms have gradually replaced many project grants with a set of functionally integrated formula-based aid programs. Receipt of formula-based assistance is not subject to competitive grant applications, significant matching funds or excessive policy requirements. The result is a more desirable aid mechanism that is both substantively and administratively attractive to municipal governments.

The aid programs of President Johnson's Great Society (1963-1968) were dominated by restrictive and costly project grants (ACIR, 1978, p. 40). Great Society project grants may have discouraged many municipalities from seeking federal assistance, since the costs associated with applying for such assistance and the requirement for fulfilling grant obligations outweighed any probable benefits associated with receipt of federal aid. In contrast, the New Federalism aid packages initiated by the Nixon administration (1969-1977) were dominated by more flexible formula-based block grant and revenue-sharing aid programs. These less restrictive and less expensive New Federalism programs made it possible for many non-recipients to enter the federal aid system for the first time. Moreover, their positive experience with general revenue sharing and block grant pro-
grams led many municipalities to experiment with project grants. Indeed, as Loucks has suggested (1978, p. 7):

Without the New Federalism, many small communities would still be outside the intergovernmental system. With GRS and block grant funds used as bait, cities . . . have become “hooked” on federal grants and, with each passing year, become unlikely to give them up.

The positive experience of municipal governments with New Federalism programs and their newly acquired dependence on federal assistance led these new aid participants to apply for project grant assistance. The nature of this dependence is both political and economic in character. Unrestricted expenditures of block grant and revenue-sharing monies allowed many communities to substitute federal monies for municipal revenues, effectively reducing taxes (Caputo and Cole, 1977; Urban Institute, 1979). In order to maintain stable tax rates, municipal governments were forced to broaden their involvement with the federal aid system and compete for project grant monies. In addition to the political advantages of reduced taxes, many New Federalism programs stimulated demand for additional government services. Citizens provided new services under the Community Development Block Grant program had their appetites whetted for continued and expanded services, requiring new municipal revenues. Unable to raise taxes, the affected governments began to seek federal aid beyond the scope of revenue sharing and block grants (ACIR, 1980b, p. 174).

Three hypotheses can be derived from the previous explanation of federal aid allocations:

1. The degree of equalization in the allocation of federal aid is positively related to the level of municipal participation in the federal aid system.

2. Entry into the federal aid system after 1967 (i.e., after the implementation of revenue sharing and block grants) is inversely related to the participant's socioeconomic status.

3. Participation in the federal aid system is progressive, initially limited to formula-based aid programs with successive expansion into project grant programs.

The first hypothesis conflicts with a number of studies which have attempted to show that general revenue sharing and block grants have served to decrease equalization in the allocation of federal assistance. Dommel (1975) maintains that broadened eligibility under the block grant and revenue-sharing programs provided aid to municipalities which previously were outside the federal aid system. The impact of this newly enlarged pool of eligible recipients is that “the total central city formula entitlement [for the Community Development Block Grant] of $1.2 billion a year is nearly 20 percent less than the $1.48 billion these cities received under the categorical (i.e., project) programs” (Dommel, 1975, p. 170).

Dommel's analysis presumes that the new participants in the Community Development Block Grant program and other New Federalism aid programs need federal assistance less than the previous recipients of federal project grants. Our second hypothesis suggests the opposite. Increased participation in the federal aid system is biased toward socially and fiscally needy municipalities, effectively increasing the degree of equalization in the allocation of federal assistance.

Data and Research Design

The population of municipal governments studied is limited to all general-purpose governments over 25,000 in population as of 1967 (N = 810). The latter qualification is necessary to ensure a comparable sample across each year studied (i.e., 1967, 1972, and 1977). Communities under 25,000 must be excluded because many aid programs limit eligibility to communities 25,000 and larger, and the data on socioeconomic characteristics for smaller cities is not collected in a systematic or timely fashion by the Bureau of the Census.

Data on the allocation of federal aid monies are available from the census bureau's Census of Governments. The census bureau provides aid allocations by seven functional categories for all general-purpose governments. The census figures, issued every fifth year ending in "2" and "7," include only direct federal aid to municipal governments and exclude monies passed through the state to the municipality. Data on each independent measure of social and fiscal need were available for the three years studied. In the case of several population-based measures (i.e., for the aged and for school-age children), the data are estimates from the 1970 census (U.S. Bureau of the Census, 1979). A fuller description of data sources for federal aid outlays can be found in the appendix; Anton (1979, 1978); Anton, Cawley, and Kramer (1980); and in Hines and Reid (1977).

The appropriate indicators of social and fiscal need are widely debated by both academicians and politicians. Recent legislative battles over the measure of housing stock for inclusion in the dis-

1Thirty-five cities in California below 30,000 in size were excluded from the analysis because of missing federal aid data.
ttribution formula for the Community Development Block Grant underscore the political importance associated with this issue (Stanfield, 1979). It is not our intent to add to this already growing debate. Selection of need and fiscal capacity measures are based on their relevance to the operation of the federal aid programs studied. The indicators selected are in fact employed in a wide number of federal project and formula-based aid programs. Our measures of a municipality's need and fiscal capacity are as follows:

Factors Measuring a Municipality's Need:

- Aged (percent population over 65 years of age)
- Dependent children (percent population below 18 years of age)
- Education (percent population with high school education, 25 years of age and over)
- Unemployment (percent adult population unemployed)
- Poverty (percent of families below poverty income level)
- Crime (crimes per 1,000 persons)
- Income (median family income)
- Population size

Factors Measuring a Municipality's Fiscal Capacity and Effort:

- Home ownership (percent of dwellings owner occupied)
- Home value (median value of owner-occupied home)
- Property tax rate (full value municipal property tax)
- Tax burden (percent of per capita income paid for taxes)

See ACIR (1978). There is a tendency when evaluating the targeting capacity of federal aid allocations to measure equalization against more objective and sensitive measures of need and fiscal health than those employed by federal officials. The exploration for more isomorphic measures of social and fiscal need raises a different question than the one addressed in this article. To evaluate targeting in terms of criteria other than those employed by federal authorities is to engage in a biased analysis of federal targeting efforts. In order to evaluate properly the effectiveness and correlates of federal targeting activities, it is necessary to consider the indicators actually employed in distributing the federal largesse, rather than an alternative set of indicators, regardless of their validity.

Tax burden is calculated by dividing the per capita tax revenue from 11 sources by per capita personal income.

Findings

The first hypothesis implies that changes in the distribution of federal aid are partially a function of a significant increase in the number of municipal governments participating in the federal aid system. Table 1 presents the percentage of communities participating in the federal aid system between 1967 and 1977 by functional area. In each successive year the percentage of participating governments increases. Between 1967 and 1977, 46.7 percent of the communities studied initially entered the federal aid system. Moreover, this dramatic increase is not merely a function of the passive general revenue-sharing program. Of those communities studied, more than 90 percent participated in project grants in 1977, suggesting that at least since 1972 (the first year of general revenue sharing), a large number of municipal governments have broadened their use of aid programs to include project grants.

Participation in each functional category of federal aid increased during the period studied. Interestingly, overall participation in each of these functional areas lags behind participation in all aid programs and does not exceed 50 percent of the communities studied in any year. Limited use of federal aid in at least five areas is due to the absence of municipal functional responsibility for these functional activities. Education, public welfare, employment, and highways are functional responsibilities associated with state and county governments and special districts instead of general-purpose municipal governments. This condition would suggest that participation in the federal aid system may be related to the scope of municipal functional responsibility.

Table 3 presents the relationship between per capita federal aid outlays and indicators of need and fiscal capacity. For comparative purposes,
Table 1. Percent of Municipal Governments Participating in the Federal Aid System by Program and Year: 1967, 1972, and 1977

<table>
<thead>
<tr>
<th>Program</th>
<th>1967</th>
<th>1972</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Aid Programs</td>
<td>53.3</td>
<td>63.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Education</td>
<td>11.7</td>
<td>11.7</td>
<td>12.3</td>
</tr>
<tr>
<td>Employment</td>
<td>2</td>
<td>.2</td>
<td>.2</td>
</tr>
<tr>
<td>Housing/Rural Renewal</td>
<td>25.0</td>
<td>29.9</td>
<td>38.7</td>
</tr>
<tr>
<td>Highways</td>
<td>2.5</td>
<td>1.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Health</td>
<td>8.2</td>
<td>7.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Public Welfare</td>
<td>.4</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Other</td>
<td>38.8</td>
<td>53.3</td>
<td>90.1</td>
</tr>
</tbody>
</table>

N = 810


*Excluding participation in general revenue sharing.

the unstandardized and standardized coefficients
and y-intercept are presented. Interpretation, however, is limited to the unstandardized coeffi-
cient.4 Nine of eleven need and fiscal capacity
as an endorsement of the use of per capita measures. We
have reported per capita measures because of their ease
of interpretation, not because they are more theoreti-
cally meaningful.

4I have deviated from previous analysis procedures
(Dye and Hurley, 1978; National Governors' Associa-
tion, 1980) by relying on the unstandardized regression
coefficient rather than the (standardized) correlation co-
efficient to measure equalization over time. Compara-
sions between standardized coefficients cannot be made
to over time, since the means and variances, the hypothe-
sized source of variation in the observed correlations,
are invariant (i.e., mean = 0, variance = 1). The un-
standardized coefficient, which does not alter the mean
or variance of either variable, allows us to compare
the magnitude of change in per capita aid outlays as a func-
tion of a unit change in the same variable measured over
time. Substantively, the unstandardized regression coeffi-
cient is interpreted as the dollar increase in per capita
allocations associated with a unit change in need or
fiscal capacity. For a further discussion of this issue, see
Blalock (1971).

measures produced the expected change in the ob-
erved relationship with per capita federal aid out-
lays. Substantively, this indicates that in each suc-
cessive year a unit change in need and/or fiscal
capacity produced a greater change in federal out-
lays in the hypothesized direction. Fiscal capacity
variables appear to lag behind need indicators in
the magnitude of their impact on changes in aid
outlays. Unit changes in median income and home
value each produced less than a $1.00 change in per capita dollar outlays in any year.
The coefficients for median home value in each
year were insignificant, indicating that home
value makes no contribution to the level of equali-
ization in the allocation of federal assistance.

Population size has a significant but extremely
weak influence on the allocation of federal aid in
1967 and 1972. As expected, larger cities received
more aid, though this ratio is negligible. In 1977,
however, this relationship is reversed. There is a
moderate and negative relationship between city
size and aid allocations. This change reflects the
broadening of eligibility requirements to include
cities under 50,000 in size in aid programs (e.g.,
discretionary funding under the Community De-
velopment Block Grant). Beyond the political

Table 2. Mean Per Capita Direct Federal Aid Allocation by Year: 1967, 1972, and 1977

<table>
<thead>
<tr>
<th>Year</th>
<th>1967</th>
<th>1972</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation</td>
<td>$4.47</td>
<td>$9.61</td>
<td>$56.02</td>
</tr>
<tr>
<td>N =</td>
<td>431</td>
<td>513</td>
<td>810</td>
</tr>
</tbody>
</table>


*Excluding general revenue sharing allocation.
Table 3. Relationship between Per Capita Direct Federal Aid and Selected Indicators of Socioeconomic Need by Year

<table>
<thead>
<tr>
<th>Variable</th>
<th>1967</th>
<th>1972</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Beta</td>
<td>Intercept</td>
</tr>
<tr>
<td>Aged</td>
<td>21.80*</td>
<td>.087</td>
<td>2.26</td>
</tr>
<tr>
<td>Dependent Children</td>
<td>24.65*</td>
<td>.114</td>
<td>12.00</td>
</tr>
<tr>
<td>Education</td>
<td>-9.90*</td>
<td>.107</td>
<td>10.23</td>
</tr>
<tr>
<td>Unemployment</td>
<td>39.91</td>
<td>.064</td>
<td>2.85</td>
</tr>
<tr>
<td>Poverty</td>
<td>21.09*</td>
<td>.091</td>
<td>2.72</td>
</tr>
<tr>
<td>Crime</td>
<td>140.03*</td>
<td>.217</td>
<td>.67</td>
</tr>
<tr>
<td>Home Ownership</td>
<td>-21.43*</td>
<td>-.255</td>
<td>17.56</td>
</tr>
<tr>
<td>Home Value</td>
<td>.00</td>
<td>.016</td>
<td>3.96</td>
</tr>
<tr>
<td>Median Family Income</td>
<td>.00</td>
<td>-.074</td>
<td>8.18</td>
</tr>
<tr>
<td>Tax Burden</td>
<td>738.11*</td>
<td>.343</td>
<td>-.54</td>
</tr>
<tr>
<td>Population Size</td>
<td>.01</td>
<td>.015</td>
<td>3.86</td>
</tr>
</tbody>
</table>

N=810


*The coefficient is at least twice the size of the standard error and significant at the .05 level.

causes of social and economic decline. The findings in Table 3 are not sufficient to demonstrate that changes in equalization are due to increased participation in the federal aid system by needier and fiscally strained municipalities. The covariance of these two variables and their independent effect on equalization must first be established before we can conclude that increased grant use increases equalization.

*See Beer (1976) for a further discussion of this issue.

Table 4. Difference of Means Test between New and Old Federal Aid Participants for the Periods 1967-1972 and 1972-1977

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>New</td>
<td>Old</td>
</tr>
<tr>
<td>Aged (%)</td>
<td>10.6</td>
<td>9.6*</td>
</tr>
<tr>
<td>Dependent Children</td>
<td>35.3</td>
<td>32.6*</td>
</tr>
<tr>
<td>Education (%)</td>
<td>51.2</td>
<td>58.2*</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>4.4</td>
<td>3.6*</td>
</tr>
<tr>
<td>Poverty (%)</td>
<td>9.1</td>
<td>7.3*</td>
</tr>
<tr>
<td>Home Ownership (%)</td>
<td>57.5</td>
<td>65.4*</td>
</tr>
<tr>
<td>Home Value ($)</td>
<td>17,191</td>
<td>19,033*</td>
</tr>
<tr>
<td>Median Income ($)</td>
<td>9,648</td>
<td>10,692*</td>
</tr>
<tr>
<td>Tax Burden (%)</td>
<td>6.5</td>
<td>4.2*</td>
</tr>
<tr>
<td>Crime (per 1,000)</td>
<td>3.0</td>
<td>2.1*</td>
</tr>
<tr>
<td>Population</td>
<td>46,634</td>
<td>160,339*</td>
</tr>
<tr>
<td>N</td>
<td>153</td>
<td>360</td>
</tr>
</tbody>
</table>


*P < .05.
Table 5. Patterns of Participation in the Federal Aid System: 1967-1977

<table>
<thead>
<tr>
<th>Pattern</th>
<th>1967</th>
<th>1972</th>
<th>1977</th>
<th>Percent</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant Participants</td>
<td>Participant</td>
<td>Participant</td>
<td>Participant</td>
<td>44.4</td>
<td>360</td>
</tr>
<tr>
<td>New Participants in 1972</td>
<td>Non-Participant</td>
<td>Participant</td>
<td>Participant</td>
<td>18.8</td>
<td>153</td>
</tr>
<tr>
<td>New Participants in 1977</td>
<td>Non-Participant</td>
<td>Non-Participant</td>
<td>Participant</td>
<td>27.7</td>
<td>225</td>
</tr>
<tr>
<td>Deviants</td>
<td>Participant</td>
<td>Non-Participant</td>
<td>Participant</td>
<td>8.9</td>
<td>72</td>
</tr>
</tbody>
</table>


Table 4 presents the mean values on indicators of social and fiscal need for new and old aid participants. The second hypothesis suggests that those entering the federal aid system for the first time (i.e., in 1972 and 1977) were significantly needier than those communities already in the system. New aid participants in both 1972 and 1977 are significantly needier on all measures. The evidence suggests that greater equalization in allocation of federal aid came about as a result of changes in the composition of recipient governments. New recipients added a significant degree of heterogeneity and need to the population of federal aid recipients, thus enhancing the degree of equalization.

Our third hypothesis predicted that new participants in the federal aid system have a progressively wider involvement in the federal largesses. Initially, utilization of aid programs is limited both in quantity (i.e., total dollars received) and scope (i.e., block grants and general revenue sharing). With successive years of participation, this level of use broadens fiscally and programmatically to include more restrictive project grants. Implicit in this general hypothesis is the notion that entry into the system is permanent. Once a community enters the federal aid system, exit is unlikely. Data from the CSA outlays report were used to calculate the amount of project and formula grant monies allocated to new aid recipients in 1972 and 1977.

Table 5 identifies the different modes of participation in the federal aid system between 1967 and 1977. As expected, most communities which entered the federal aid system retain their involvement after entry. Only 72 communities (8.9 percent) deviate from this pattern. In the case of each of these communities, the pattern was to enter the system in 1967, leave in 1972, and re-enter in 1977. No other deviant pattern was observed among the communities studied. Examination of these deviant cases did not identify a trait common to these communities. Standard deviation scores on selected socioeconomic variables indicate that there is substantial diversity among deviant aid participants. More detailed information on the nature of each community's experience with the aid system is necessary before we can arrive at any conclusive statements as to the cause and nature of deviations from the expected participation pattern.

Among those communities entering the federal aid system in 1972 and 1977, a definite pattern of participation can be identified. The mean per capita aid allocation for new participants increased from $4.65 in 1972 to $35.01 in 1977. Both figures lag significantly behind mean allocations for older participants in both years (see Table 2). As expected, the 1977 mean aid allocation for new participants entering in 1977 was lower than the mean allocation for participants who entered the system in 1972. This finding is

Table 6. Mean Per Capita Aid Allocation and Percent of Total Aid Received from Formula-Based Aid Programs for New Aid Participants in 1972 and 1977

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New Aid Participants 1972 (N = 153)</td>
<td>$4.65</td>
<td>65.7</td>
<td>$35.01</td>
<td>52.3</td>
</tr>
<tr>
<td>New Aid Participants 1977 (N = 297)</td>
<td>NA</td>
<td>NA</td>
<td>$25.84</td>
<td>58.1</td>
</tr>
</tbody>
</table>

contrary to Dommel's thesis that new aid recipients under New Federalism received a disproportionately larger amount of federal assistance than did traditional aid recipients. The findings in Tables 2 and 4 demonstrate that new entrants into the federal aid system were significantly needier than previous recipients and that their allocations continue to lag behind less fiscally stressed and older aid recipients.

The scope of participation among new participants confirms the hypothesized pattern of grant use. New participants' initial involvement in the federal aid system is dominated by less restrictive and less costly formula and block grants. For new 1972 aid participants we observed a significant shift from formula grant (i.e., 65.7 percent) to project grant use (i.e., 52.3 percent) in 1977. These findings clearly establish the evolutionary nature of grant use. Reluctant to invest time and money in seeking competitive aid programs, new entrants to the federal aid system seek more secure and less restrictive block grant and revenue-sharing monies. Having experienced the dependence of federal aid, new entrants seek to broaden their use of the federal largesse by seeking and receiving monies from the larger pool of project grants. In fact, federal aid monies from block grants and revenue sharing are used to finance grant-seeking ventures, thus lessening the costs of competitive grantmanship.

Discussion

Contrary to prevailing views, the expansion of the federal aid system through general revenue sharing and block grants has not lessened the degree of equalization in the allocation of federal aid monies. The evidence points to the opposite conclusion. Those communities which entered the aid system between 1967 and 1977 were the very communities most in need of federal assistance and the object of many aid programs. Moreover, the relationship between need and fiscal capacity is significantly strengthened by the added participation of these new beneficiaries of the federal largesse.

The findings of this study establish an alternative policy for alleviating inequities in the allocation of federal aid. Rather than relying exclusively on a supply-side approach (i.e., alterations in the allocation mechanisms), policy makers might consider the recipients' perspective. Assisting local governments in costly grant applications and encouraging intergovernmental grant applications would help to defray the costs of seeking and receiving federal assistance and thus increase the use of grants and their equalization among needy and fiscally strained communities. Both the block grant programs and general revenue sharing have provided some initial steps in this direction.

Finally, a note of caution. This study has not commented on the substantive policy impact of federal aid programs. Many critics of revenue sharing and block grants claim that these mechanisms fail to achieve their intended policy goals (e.g., increase municipal expenditures in targeted policy areas). Though not unrelated, this issue is beyond the scope of this study. We have attempted to examine only one aspect of the federal assistance program, the allocation process. Impact and evaluation are clearly the next logical steps to be taken in the study of the federal aid system, particularly among new aid recipients.

Appendix:
A Note About Data on Federal Aid Outlays

Studies of the federal aid system are subject to significant obstacles when testing hypotheses. The fundamental problem is the "inability of the nation to keep a usable record of its own fiscal transactions" (Anton, 1978, p. 1). At present there is no single reliable and comprehensive accounting of all federal outlays to state and substate governments.

Information about allocations of federal aid to municipal governments is available from two sources—U.S. Bureau of the Census' Census of Governments and the Community Service Administration's (CSA) Federal Outlays Report. Anton (1979) identifies three significant shortcomings with the census bureau's data: (1) the functional categories lack specificity, (2) the omission of certain unincorporated areas which are significant participants in the federal aid system, and (3) the exclusion of federal aid monies passed through the state to recipient municipal governments.
CSA outlay data report all federal expenditures to municipal governments over 25,000 in population. The outlay report includes expenditures well beyond the scope of federal aid programs (e.g., loans, subsidies, procurements, etc.). Aid allocations are reported by specific programs and administering agencies. Though the CSA data have been collected yearly since 1968, current data holdings are reliable only since 1972 (Anton, 1979).

Some of the problems associated with the census data can be corrected. Aid allocations for unincorporated areas are available from special census reports which can be added to the Census of Governments data file. The omission of pass-through monies, though problematic when studying all substate governmental units (i.e., counties, school districts, special districts, etc.), is of minimal importance when studying aid allocations to general purpose municipal governments. The ACIR's analyses (1979, 1980) reveal that most pass-through monies go to special districts (i.e., public school districts) and counties (i.e., general welfare and highways) and not municipal governments.

For studies of aid allocations after 1972, the CSA data are clearly superior to the census bureau's accounting of federal aid transfers. This relative advantage, however, is eliminated for the purposes of this study. The lack of reliable data on aid allocations before 1972 limits the utility of the CSA data in testing the time-series hypotheses posed by this study. Moreover, certain shortcomings identified in the census data set can be corrected, making the census bureau's accounting of federal grant outlays the preferred data base for this study. The work of Thomas Anton's Intergovernmental Fiscal Analysis Project should produce more extensive and reliable data with which to pursue research on federal aid allocations and their impacts on recipients.

References

ACIR (see U.S. Advisory Commission on Intergovernmental Relations).


