The Intergovernmental Approach to Metropolitan Areas

State and local governments are searching for ways to resolve area problems without recourse to the extreme of federalsim.

BACK in the early 1950's, a planning commissioner serving in a city aggressively expanding at the expense of nearby areas suggested that the suburbs, in self defense, get together and annex the central city. An examination of the many forms that intergovernmental cooperation has taken in recent years indicates that his facetious suggestion may be the only one yet untested.

The kinds of metropolitan agencies that have been created range from full-fledged area organizations, such as Metropolitan Dade County and federations in several Canadian areas, to informal bodies of municipal and county officials, such as the New York Regional Council. Some are functionally oriented programs, such as the numerous regional planning agencies; others are general coordinating groups, such as that operating in Salem, Oregon. In the San Francisco area both functional and general agencies are active. Some cities, where unincorporated area is available and it is legal to do so, have been able to annex large chunks of land and thus turn many metropolitan problems into city problems.

The attention of the federal and state governments has turned increasingly toward metropolitan area and their problems.[1] The federal government, for its part, has been particularly active recently in studying metropolitan transportation. Several states have established agencies to review municipal annexations and incorporations. The forms that local cooperation is taking are

[1] As a result of the 1960 Census there are 212 Standard Metropolitan Statistical Areas in the United States (excluding three in Puerto Rico). To be classified as an SMSA an area must meet certain population and economic criteria. The basic population standard is a central city of 50,000 or more inhabitants or two cities having continuous boundaries with a combined population of at least 50,000. The area includes all of the county in which the central city is located; if two or more adjacent counties each have a city of 50,000 or more they may be included in the same area. In New England, however, the area boundaries follow town boundaries rather than county lines, with population density also a factor.

both numerous and varied and extend from coast to coast. This article is designed to highlight these and other trends of the past few years and to summarize related activities by state and federal governments and by informal organizations.[2]

Annexation

While this avenue is not open to all cities, annexation continues to be the most important method by which a city can extend its services to fringe areas. Significantly, 1960 saw the annexation of more than 1,000 square miles of land. Large annexations, such as Oklahoma City's addition of 149 square miles and Kansas City's addition of 187 square miles, are not the rarity they once were. Phoenix, for example, has steadily increased its land area. A large annexation by Nashville was upheld by the state supreme court in a significant decision in Tennessee.

Within the past two years, Alaska, Minnesota, and Wisconsin have established local boundary commissions which have authority to review annexations. This serves to ensure that the annexing city is prepared to provide certain urban services. In Minnesota the commission must also review proposed incorporations and consolidations. It has been proposed that a similar commission be set up in California.

The North Carolina legislature took a somewhat different approach. Its annexation legislation provides specific standards so that municipalities may annex land without referenda under specified conditions. Some of the standards relate to proximity to the city and absence of any incorporated area within the land to be annexed. The annexed area must meet certain standards of population and residential, commercial, and industrial development. The annexing city must be able to demonstrate that it is prepared to provide municipal services.

The importance of this means of attacking metropolitan problems was underscored by the preparation, by the American Municipal Association, of *Basic Principles for a Good Annexation Law*. If adopted by state law, the principles make it easier for cities to annex land under conditions of orderly growth.

Metropolitan Federation

The well-known Dade County and Toronto metropolitan federations have not been duplicated in North America, although metropolitan organizations with substantially less power have been set up in Montreal and Winnipeg. The Dade County metropolitan government has steadily increased its areas of prime responsibility, and the Toronto metropolitan government may be coming up for some remodeling. Frederick G. Gardiner, chairman of the Toronto Metropolitan Commission, has suggested that serious thought be given either to complete amalgamation of the municipalities involved or to a multiple voting system which would permit municipalities to vote only in proportion to their populations.

Metropolitan Counties

Some observers say that the county government should play an increasingly important role in solutions to metropolitan area problems. A plan to do just that has been introduced in Virginia where the legislature recently enacted laws permitting counties of more than 50,000 population to set up urban service districts. Known as the "Fairfax Plan," this legislation permits the county to meet the needs of unincorporated urban areas within the county by providing certain municipal services without placing a financial burden on the rural areas not receiving the services. The legislation provides for representation of urban areas in the administration of the service districts.

Merging city and county governments, as was done years ago in San Francisco and Denver, has not grown at all. At least two specific proposals, to merge Macon, Georgia, and Bibb County and Durham with Durham County, North Carolina, were defeated during 1960. Earlier proposals for city-county consolidation or strengthening county governments were defeated in Albuquerque, New Mexico; Knoxville and Nashville, Tennessee; and Cleveland, Ohio.

[2] A more complete review of metropolitan area developments during 1960 will be found in John C. Bollens, "Metropolitan and Fringe Area Developments in 1960," *1961 Municipal Year Book*, pp. 47–58.

Regional Collaboration

In many regions the standard metropolitan statistical area extends well beyond a single county. In such cases county governments have been important elements of cooperative efforts. In San Francisco, for example, the Association of Bay Area Governments is set up to give recognition to the separate interests of counties and cities in the area. Any proposal must be approved by majorities in both the counties and cities. Similarly, the informal New York Metropolitan Regional Council includes county and municipal officials in its membership. The Council has worked closely with the private Regional Plan Association in several studies, particularly on the open space project which already has had considerable influence in calling public officials' attention to the need to conserve undeveloped land in metropolitan areas.

San Francisco and New York are two examples of general-purpose regional collaboration—a relatively new development as exemplified also in the Washington, D.C., Metropolitan Regional Conference, the Supervisors Inter-County Committee (Detroit area), and the Intergovernmental Cooperation Council (Salem, Oregon, area). These are advisory groups with official representation from participating governments (mostly cities and counties). Three of the organizations have legal status—Detroit, Salem, and San Francisco. The most important characteristics of these five organizations are that they are voluntary groups with a concern for all area-wide problems.

A recent proposal in California is of some significance in meeting area-wide problems. A state law, if enacted, would permit the formation of multipurpose metropolitan districts with representation in its governing body for every participating city and county. The district would be an organized governmental entity and would undertake any functions assigned by its governing body. Attempts to create such districts in St. Louis and Seattle were defeated in local referenda.

While there has been some tendency for regional agencies to become generalized in approach, many are single-purpose agencies. For example, the Northeast Illinois Metropolitan Area Planning Commission and the Twin-Cities Planning Commission (Minneapolis–St. Paul) are typical of regional planning agencies which extend beyond the boundaries of a single county. Many of the most vexing problems of metropolitan areas, such as transportation, air pollution, water supply, and sewage disposal, have been given special study by functional agencies of this kind.

Federal Activity

Federal interest in metropolitan areas problems is perhaps shown best by the current move toward the creation of an urban affairs department. A bill to set up such a department has been introduced with the President's backing. It is expected to receive greater support than similar measures introduced in the past. The proposal calls for consolidation of several existing housing agencies into a single department, but most supporters believe that a federal department also would bring a reorientation of the federal government in relation to local governments.

Some clear ideas on the relationship of various levels of government, one of the thorniest of metropolitan area problems, may develop from the work of the Advisory Commission on Intergovernmental Relations. One of its three major study activities is metropolitan areas (the other two are taxation and revenues and mass transit, also of vital interest to metropolitan areas). The Commission soon will publish two major studies, one on governmental structure, organization, and planning in metropolitan areas, and the other on intergovernmental responsibilities for mass transportation.

In its report on governmental structure in metropolitan areas, the Commission is submitting a number of recommendations for consideration by state legislatures, including: (1) simplified statutory requirements for municipal annexation of unincorporated territory; (2) authorization for interlocal contracting or joint performance of urban services; (3) authorization for establishment of metropolitan service corporations for performance of particular government services that call for area-wide handling; (4) authorization for voluntary transfer of governmental functions from cities to counties and vice versa; (5) authorization for the creation of metropolitan area commissions on local structure and services; (6) authorization for creation of metropolitan area planning bodies; (7) establishment of a unit of state government for continuing attention, review, and assistance regarding the state's metropolitan areas; (8) inauguration of state programs of financial and technical assistance to metropolitan areas; (9) stricter state standards for new incorporations within metropolitan areas; (10) financial and regulatory action by the state to secure and preserve "open land" in and around metropolitan areas; and (11) assumption by the state of an active role in the resolution of disputes among local units of government within metropolitan areas.

With respect to federal activities the Commission is recommending: (1) financial support on a continuing basis to metropolitan area agencies; (2) expanded federal technical assistance to state and metropolitan agencies; (3) Congressional consent in advance to interstate compacts creating planning agencies in those metropolitan areas crossing state lines; (4) review by a metropolitan planning agency of applications for federal grants-in-aid within the area with respect to airports, highways, public housing, hospitals, construction, waste treatment works, and urban renewal projects.

In its report on mass transportation in metropolitan areas, the Commission is recommending that states provide financial and technical assistance for planning mass transportation and that they authorize the creation of metropolitan transportation authorities. The Commission is recommending that Congress give advance consent to interstate compacts creating transportation planning agencies. The Commission also recommends that the federal government provide financial assistance in meeting the mass transportation problem by grants through planning and demonstration projects and by long-term loans for construction and modernization of mass transportation facilities.

State Activities

In a recent issue of Public Management, the question was asked, "Do We Need a State Agency for Local Affairs?"[3] It summarized the existing services that several states furnish to local governments. Perhaps a forerunner in this regard was establishment of the New York Office for Local Government. The principal activities of the office are to work with both state and local governments in developing cooperative solutions to common problems. This is done in a number of ways through consultation, research projects, in-service training, and centralized information on local governments. An especially important assignment is to advise the governor on policies for making effective use of state agencies in providing services to local governments.

It seems likely that further state interest will develop regarding metropolitan problems. In most cases state action is crucial, if only to establish the machinery needed to do the job, as in the creation of bistate agencies, or as in New York, to clear the way for local governments to do cooperatively what they cannot do separately.

Another method in which state action can be brought to bear is illustrated by the Salem, Oregon, plan of "Massive Cooperation." Here the state has joined with two counties, a city, and a school district, to take an active part in the coordination of plans for the region around the state capital.

Cooperation Inevitable

It is a temptation, when looking back over the past decade, to say that some form of intergovernmental cooperation appears inevitable for every metropolitan area. Such a thesis appears sound, despite a long string of rejections of more or less general government in such places as Cleveland, Knoxville, Nashville, and Seattle. Today there is more machinery, formal and informal, established to solve area problems than at any prior time.

Among the forces that lead to the establishment of such machinery, population

[3] John G. Grumm, "Do We Need a State Agency for Local Affairs?" Public Management, June, 1961, pp. 129–33.

growth in our metropolitan areas is the central one. The scope of this growth is only lately realized, with the publication of the 1960 Census reports. Seventy per cent of the nation's population now lives in urban aras, and 63 per cent of the total population resides in 212 standard metropolitan statistical areas. As Victor Jones points out in the *1961 Municipal Year Book:*

> Between 1950 and 1960 the metropolitan population of the United States increased by over 28.4 million. The increase during the decade was larger than the total population of the 52 metropolitan areas in 1900. The magnitude of the increase in the population of metropolitan areas during the past decade can be more easily grasped by looking at it as roughly equivalent to all the people living in 1960 in the metropolitan areas of New York, Los Angeles, Chicago, and Philadelphia.[4]

Area needs vary, but water supply and sewerage, highways, and mass transit—particularly mass transit—seem to be the problems that require some form of joint action. The net effect has been to create imperatives that must be heeded in those areas where the problems are most pressing. A statement in the final report of the Milwaukee County Intergovernmental Cooperation Committee can be generalized to apply equally well to all metropolitan areas:

> The continued growth of the metropolitan area will inevitably impel local government officials toward joint and cooperative action in the furnishing of governmental services and the solution of metropolitan problems. Joint arrangements and cooperative activities will increasingly be relied upon to bridge local political boundaries in the interest of effective and economical government services.

It should be recognized, however, that such cooperation often comes with reluctance. The Milwaukee Committee has listed these barriers to cooperation in its area; reworded somewhat, they apply in most metropolitan areas.

1. Uncertainty over the actual extent of authority to cooperate under existing state laws.

2. Lack of regular and consistent communications between chief executives and members of local legislative bodies, particularly with reference to problems that can and should be met by joint action.

3. Historic antagonisms between the central city and suburban communities.

4. Lack of understanding and enthusiasm on the part of the public for joint municipal action, except in emergencies.

5. Hesitation on the part of local officials to take action which their own analysis and judgment may dictate, but for which necessary public support is lacking.

The indicators point toward the necessity and even the inevitability of cooperating. State and local officials increasingly recognize the need, but the important decisions—political decisions as reflected in law—are yet to be made in most states and areas.

[4] "Metropolitan Areas," *1961 Municipal Year Book*, pp. 33–42.

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Minnesota's Place and Rank in the Union

Minnesota entered the Union as the 32nd state on May 11, 1858. Sixteen states have entered since then to make the present total forty-eight. Crediting the original thirteen states with having been states from 1776 on, but figuring all other states' ages from the time when they entered the Union under the Constitution I find that the average age of the states in 1955 was 123 years, the oldest being 179 and the youngest 43 at that time. On this basis Minnesota with 97 years of statehood was 26 years under the average age. This calculation makes it one of the younger states, but it is also the oldest of the states that are still less than a century old.

Because we, the editors, are using Minnesota as the center of attention in this entire series of studies on intergovernmental relations, and because the state's financial relations with the national government and with its local units affect significantly all the other relations that we deal with, this seems to be an appropriate place to consider Minnesota's place and rank among the states. One question is how "good"or "typical" a sample of the states we have selected in using Minnesota for our studies. We obviously made the selection for reasons other than an assumed typicalness or a belief that this state is the most representative sample that could have been found among all the states. It may, nonetheless, be useful to determine how far Minnesota deviates from the average or median of the states on a number criteria that are important for public finance and for intergovernmental relations.[1]

As already shown in the first paragraph of this chapter, Minnesota is chronologically one of the younger states, for whatever significance that may have.

Geographically it is not central but peripheral. Located near the middle of the northern tier of states, adjacent to Canada, it is the only state that has any part of its area north of the 49th parallel of north latitude. Its summers are relatively cool, its winters relatively severe. The lakes and forests that cover a large part of its area, especially toward the north, provide a wonderful summer playground for its people, and also constitute a source of considerable income from summer residents, tourists, and sportsmen. On the other hand, because of the severity of the winters, home and building construction costs are somewhat higher than in many states due to the need for adequate insulation, and heating costs are also higher than the average for the nation. The lack of local supplies of coal, oil, and natural gas, and the insufficiency of water power, also have their effects on power and heating costs. Then, too, the shortness of the building season and the need to protect against frost damage must be considered in connection with the costs of highway construction and maintenance. Many states, especially in the southeast, south central, and southwestern areas do not face the same problems.

Minnesota is, also, relatively far from the major centers of population east and west, and therefore, far from the major markets for its products. Being largely dependent on relatively high-cost rail, truck, and air transport, it is under some disadvantages for industrial growth as compared with east central and eastern states, which are nearer to markets and nearer to certain raw materials. Despite these evident handicaps, Minnesota has for several decades been improving its position as an industrial and manufacturing state, with increases above the national average. The deepening of the Great Lakes-St. Lawrence seaway may bring further gains to Minnesota through lower transportation costs. Meanwhile the state's great iron ore resources, the largest in the nation, are undergoing a new and expansive development that promises a long and prosperous course for the mining industry.

For its section of the country Minnesota is, also, large in area, with a land area of 80,009 square miles and an inland water area of 4,059 square miles, for a gross total of 84,068. Only Texas (admitted 1845) and California (admitted 1850) were larger in area when Minnesota was admitted to the Union, and only these two and eight others (Arizona, Colorado, Montana, Nevada, New Mexico, Oregon, Utah, and

Wyoming) have larger total areas today. In other words Minnesota is eleventh in area, well above the median and the average, although only eighteenth in population. States with nearly the same area are Idaho, Kansas, South Dakota, and Utah.

Other things being equal, the greater the area served by a government and the longer the distances to be covered by the public services, the greater the total expense. Furthermore, the sparser the population, as a rule, the higher the costs per capita for the public services. These are points to be considered in any discussion of public finance in Minnesota. For example, being somewhat sparsely populated over a large part of its area, and only three-fourths as densely populated for its entire area as the average for the nation (37.3 to 50.7) per square mile, Minnesota has problems of distance for road construction and maintenance, including a considerable expense for snow removal from the roads and highways. Indeed, Minnesota is one of only seven states with over 100,000 miles each of rural roads (109,738) and is exceeded by only three states, - Texas, Kansas, and North Dakota. In surfaced roads alone, Minnesota with 78,530 miles is exceeded by only two states, - Illinois with 87,704 and Texas with 78,987 miles. Only twelve states keep up more miles of "high-type" surfaced roads, and eight of these are states of considerably greater wealth.

The cost of school bus transportation, travel for inspectional and police services, communications and other services are also relatively higher where distances are long and population sparse. A state can meet this problem to some extent by lowering its standards of service, but Minnesota has attempted to maintain services at or above the standards in better situated states.

The population of Minnesota has already been mentioned. In discussing this as well as other factors I find it necessary to consider Minnesota not only as it is today but as it was in the past and as it probably will be in future years. When the state of Minnesota first appeared in the census of population of the United States in 1860 it already had 172,023 enumerated inhabitants and stood in thirtieth place, ahead of Delaware (112,216) and Florida (140,424), and just behind Rhode Island (174,620). It increased rapidly in population during the period of settlement in the next few decades. By 1900 it stood in twentieth place, and by 1920 in seventeenth place. Then its rate of increase slackened considerably, while certain other states forged ahead; and at the next three censuses (1930, 1940, and 1950) Minnesota rested in eighteenth place, behind seventeen states but ahead of thirty others. For several decades now the state's rate of population increase has been consistently less than the national average. In the 1940-1950 period the state's population increased by 191,000, or 6.8 percent as compared with a national average increase of 14.5 percent. This increase was made despite a loss from migration out of the state (calculated from the excess of births over deaths in the state during the decade) and a net loss to the armed forces. On the other hand it should be said that in no decade from 1860 to 1950 has Minnesota ever failed to make a population increase. By present census estimates it stands at over 3,000,000 population, giving it about 1.8 percent of a current estimated national total of about 165,000,000. The "average" state today has over 3,400,000 population, and over 2 percent of the national total, so that Minnesota is approximately 10 percent below the average in population.

The characteristics of the predominantly white and mostly northern and western European population I will not attempt to discuss. This is a subject on which it is too easy to be misled by pride and other personal feelings. There is evidence, however, that in the productivity of its labor Minnesota ranks high.

The state began as a primarily agricultural commonwealth with lumbering as another important early industry. Agriculture continues to be a major source of income, but manufacturing, mining, wholesaling and retailing, transportation, communication, public utilities, and many other occupations and service employments are now also important sources of income. Urban population has been growing at the expense of rural. At the 1950 census the urban population (primarily in incorporated places having 2,500 or more inhabitants) rose to 54.5 percent of the state's total, as compared with a national average of 64 percent. This shift from rural to urban preponderance in population suggests but does not precisely define the extent to which non-agricultural employments have come to exceed agricultural. But Minnesota continues to be an important farming state. Its agricultural industry has held up better than in most states, and many pursuits that are followed in urban places depend upon farm products and the maintenance of farm incomes.

At the same time the state's largest metropolitan center, the cities of Minneapolis and St. Paul and their suburbs, serve an area extending far beyond the state's boundaries, - in finance, communications, transportation, wholesaling, and numerous other lines.

Income has now been mentioned. There is no single perfect indicator of the ability of the people in any state to support the public services, but the income received by the people, both in the aggregate and per capita, has become to be used as the best available index of that ability. This is the income received by individuals from earnings, investments, and other sources before taxes are paid. Reasonably reliable formulae for calculating such income have been worked out and applied by the United States Department of Commerce. According to the department's figures the average per capita income payments to individuals in the United States in 1953 amounted to $1,709. Minnesota was the twenty-fourth state in order of per capita incomes, with an average of $1,547, or just 90.5 percent of the national figure, i.e., nearly 10 percent below the national average. It is interesting to notice, however, that the Minnesota 1953 percentage itself represented an increase over many earlier years. In 1929 Minnesota incomes were 80.3 percent of the national average, in 1933, 80.6 percent, in 1941, 86.2 percent, in 1945, 89.4 percent, and in 1953, as stated, 90.5 percent. There were a few dips in intervening years, but in general the trend has been upward; that is to say, Minnesota incomes have been gaining on the national average.[2] The state's rank in income payments has fluctuated just a little around the median point for all states, - from rank 25 in 1929 to 23 in 1933, to 25 again in 1941, down to 28 in 1945, and up to 24 in 1953. The downward slump in wartime may have been due in part to the failure of Minnesota industries to get a reasonably large share of government defense contracts. Workers then moved out of the state in large numbers for employment elsewhere, and many did not come back.

It should be noticed, also, that the income figures are "before taxes". I have a feeling that this makes necessary a qualification of the figures. It is generally recognized that the national individual income tax is highly progressive. That is, the higher the income the higher the rate. Identical incomes pay the national income tax at the same rate in every state. For example, a $6,000 income received by a married man with three dependents (a wife and two children) and with substantially the same deductions will be taxable at the same rate and amount in Maine or California, in Florida or Washington. But many states have more than a proportionate share of residents with large incomes. These individuals will pay more federal income tax to the federal treasury, and it in turn will pay out the money anywhere that is authorized by Congress, - to soldiers in Europe, marines in Okinawa, wheat farmers in North Dakota, and cotton farmers in Texas, and to state and local governments for grants-in-aid. The result is a proportionately greater diminution through federal income taxes of the incomes received in the wealthier states. There is no exact way of telling how much this amounts to, but there are significant hints in the figures on United States individual income taxes paid in the various states. For example, the individual income and employment taxes collected by the national government in New York state in 1953 amounted to $384.50 per capita, whereas in Minnesota the per capita average was $205.00 or about $180.00 less.

The federal income tax is known to be a great equalizer of incomes. If the sample figures here given are even approximately valid, they indicate that the differences between states in per capita spendable incomes, <u>after taxes</u>, is considerably less than would at first appear. Indeed, I calculate that Minnesotans paid about $26.00 per capita less than the national average of $231.00, while New Yorkers paid about $153.00 above the national average. On this basis I conclude that the disposable income of Minnesotans is nearer the national average than is usually stated, and that the real "take home" incomes of the people in the wealthier states are also nearer the average.

Where the national government spends the money it raises by the individual income tax is an important consideration. Had Minnesota industries received during World War II a larger share of major war contracts, and had there been larger training bases for military personnel within the state, so that more federal funds had been spent here, Minnesota might have reached or possibly exceeded the national average of per capita incomes. What would have happened after the war, when defense contracts were terminated, is another question. As it was, Minnesota felt the change to a peacetime economy very little. But if in general the national government collects considerable sums in income taxes from wealthy persons located principally in the wealthier states, and spends large parts of this money for grants-in-aid, subsidies to farmers and other individuals, and public works in the relatively poorer states, the circle of equalizing actions is completed. Incomes may go up to some extent in the poorer states as they are being held down for wealthier persons in the more well-to-do states. To what extent this interregional redistribution of income is good public policy is another question.

Taxpayers associations and some industrialists tend to emphasize the amounts collected in state and local taxes when comparing state with state or city with city, as a place to locate or maintain an industry. The theory seems to be that a high tax "burden" is a bad thing, in and of itself, as compared to a low tax burden, without regard to the public services that are provided. Carried to its extreme this would mean that even a state with poor schools, poor roads, poor law enforcement, and inadequate provisions for public health and welfare, but a low tax level, is preferable as an industrial location to one with a higher tax level but with superior services. I have reasons to believe that this attitude is less widespread than it used to be and that a more enlightened view is coming to prevail. As the standard of living continues to rise all along the line in the United States, industrialists like other citizens recognize that the public services must expand and improve also to make further progress possible, --more and better roads for more automobiles, for example, -- and that such improvements cannot take place without the raising and spending of more money through state and local governments, with federal aid where that is necessary or desirable.

Nevertheless, since many persons think of the level of state and local taxes as an important factor in the rating of governments, and because it is usually one factor in determining the location of some industries, it is necessary to discuss the question. It should, therefore, be noted that Minnesota is recognized generally as having a fairly high level of state and local taxes. For 1953, for example, the average per capita taxes for Minnesota were reported as: $79.66 in state taxes (including the unemployment compensation tax) compared with a national average of $76.93, and $77.65 in local taxes as compared with a national average of $66.49. This made a total state and local tax level of $157.31 per capita for Minnesota as compared with a national average of $143.42. Minnesota was the nineteenth from the top in per capita state taxes and twelfth from the top in per capita local taxes. In combined state and local taxes Minnesota stood 10 percent above the national average and in thirteenth position among the states.[3] It was preceded in this ranking by Massachusetts, New Hampshire, New York, New Jersey, Michigan, Wisconsin, Washington, Oregon, California, Nevada, Colorado and Wyoming. There is here an interesting geographic pattern of higher taxed states, with one tier of northern states from Massachusetts and New Hampshire to Minnesota, and a separate group of six Pacific Coast and Mountain states. Other states fairly adjacent to these had somewhat lower average tax levels, while the southern and southeastern states generally had the lowest levels of all. New York was highest with a combined average rate of $208.43, Alabama lowest with $79.44.

Because tax laws, tax rates, and economic conditions change almost from year to year in all states, a comparison of state tax levels for a single year is not enough. A comparison on the basis of 1950 or 1951 figures will be out of date by 1952 or 1953. Much depends also upon what taxes are included. Some studies have excluded the unemployment compensation tax, and when this has been done Minnesota has ranked even higher than 13th place.

A recent regional study comparing Minnesota with ten other states from the Dakotas to Ohio, south as far as Missouri, and including also Washington, was based on 1950 and 1951 taxes excluding unemployment taxes.[4] In this study Minnesota was found to have higher taxes than any ot the other ten states in the group; but in the 1953 figures that I have used, including unemployment compensation taxes, Michigan, Wisconsin, and Washington have all gone above Minnesota. I make no special claim for the scientific validity of the basis I have chosen, but I think that industrial companies are interested in the total tax level.

Another comparison sometimes made brings in the factor of individual income. How high is the average per capita tax in relation to the average income? If averages are taken at their face value and without analysis, Minnesota, being below the national average on per capita income and above the national average on state and local taxes makes a relatively poor showing. It is clear, however, that such a comparison is misleading. It has little to do with the question of the tax burden on an industry that is seeking a location in the general region. Also, being based on mere averages it tells nothing about the relative taxes upon individual persons in comparable positions in Minnesota and in other states. The distribution of the "tax burden" is the key to this problem. How does a Minnesota farmer with a $6000 a year income before taxes compare in the total taxes he must pay to state and local governments with farmers of similar income and conditions in other states? How does a mechanic with a $4000 income before taxes compare in his tax obligations with mechanics of like income in other states? These are specific and meaningful questions that cannot be answered on the basis of average per capita taxes.

Indeed there are other meaningful questions that cannot be answered from per capita averages or from any other data now available. One is, how much public service and how satisfactory a level of service is the taxpayer in each category getting for his money in Minnesota as compared with other states? Also, since state and local taxes are voted by the people themselves or, more commonly, by their elective representatives who are responsible to them, is it certain that people who vote to spend proportionately more of their incomes through public channels to provide better schools, better roads, and other public services, are actually worse off than people in other places who spend their money differently? May they not be demonstrably better off?

Some of these questions are obviously directed against the idea that a composite average per capita level of state and local taxes can be properly designated as a "tax burden". Because of differences in the tax systems in different states it is difficult if not impossible to define the tax load in the same terms in all states. Even if the per capita average amounts are the same in two states, the burden is not the same in a state that uses a sales tax for most of its revenue as it is in a state that uses a progressive income tax as its main support. Moreover, within any state the local taxes will vary in amount from place to place, so that the average has little meaning.

"Burden upon whom" is always an appropriate question. Thus in the Minnesota tax system there is a substantial state and local revenue from taxes upon iron ore, ore royalties, and the occupation of iron mining. Are these taxes upon the taking out of this natural resource, a large part of which is owned by nonresidents, a tax burden upon the farmers, the workers, the small businessmen and the professional men or other residents of the state? Is it not more of a tax relief for them? This question was raised before a state interim tax study committee by Mr. G. Howard Spaeth, state tax commissioner, in July, 1953.[5] The Minnesota Legislative Research Committee had made a report in November, 1952, then Minnesota ranked tenth among the states in state taxes, and eighth among the states in combined state and local taxes.[6] Mr. Spaeth reasoned that the taxes on iron ore are not a tax burden on the people of the state in the usual sense. If the amount paid in such taxes were left out of the reckoning he found that Minnesota's "burden" of state taxes would put it down into 21st place in the rankings and not in tenth place. One trouble with this approach is that other states have similar sources of revenue from natural resources, so that a recalculation would have to be made for each state to find a valid basis for interstate comparisons based upon their respective tax levels. It is my opinion that the attempt to rank the states on the basis of their state and local tax levels, by per capitas, or other wise, is so difficult, involves so many variables and questions of judgment, and results in such ambiguous and misleading conclusions that it is hardly worth the effort.

Having now dealt with tax levels I will not go through the matter of public expenditures, because in general they correspond in amounts with the revenues raised, except as there is some borrowing. This means of course, that state and local expenditures, like state and local taxes, are relatively high in Minnesota.

State and local public debts in the United States which were reduced generally in the 1930's and early 1940's (World War II) have been increasing again in recent years. Total state and local debts in 1953 approached $33 billion, or about one-eighth of the national debt, and were in the neighborhood of $200 per capita. Since this debt is mostly funded at low rates of interest it does not constitute a serious problem in current public finance generally, although in certain places it may be burdensome. In the total it amounts to only about six weeks of the average per capita income, or the price of a modest refrigerator or television set per capita.

For the record let it be said that Minnesota's state debt in 1953 was only $37.18 per capita, well below the national average of $49.69, - and that this debt was greatly exceeded by the state's permanent trust funds for public schools. The local government debts at that time in Minnesota (mostly city, village and school district debt) were somewhat over twice the state debt but were considerably below the national average for local government debts. In fact, per capita state and local debts combined in Minnesota (although precise figures for 1953 are not immediately available) are only about 70 per cent of the national averages.

Local governments should also be mentioned among the criteria by which states may be ranked and distinguished. Minnesota stands today as the state with the largest number of local government units in the land.

At the last complete enumeration of local units of government in the United States, in 1952, there were 116,743 such entities in the 48 states, or an average 2,432 per state.[7] Minnesota at that time had 9,026, or nearly four times the national average. Indeed, Minnesota headed the list of states in numbers of local units. With less than 2 percent of the nation's population, Minnesota had 7.7 percent of the nation's local units. Classified according to their several types there were 87 counties in the state, 796 incorporated places (cities and villages, and one "borough"), 1844 organized townships (called towns in the laws), 6,227 school districts, and 71 other special districts.

Other states with large numbers of local units in 1952 were Nebraska (7981), Illinois (7723), Wisconsin (7,258), Missouri (7002), Kansas (6933), Michigan (6766), Iowa (5857), New York (5483), Pennsylvania (5156), and South Dakota (4917). School districts accounted for the largest numbers in all these states. A few states without separate school districts had less than a hundred governmental units each.

If my interest in this monograph were not primarily in intergovernmental financial relations I could extend the account of Minnesota's place among the states to cover various natural resources, cultural developments, educational facilities and progress in other directions. Enough has been said, however, to provide some basis for ranking Minnesota in its place among the other states for fiscal purposes.

To bring this discussion to a close, I will attempt to strike a sort of balance sheet for the state in those general matters that affect public finance and intergovernmental financial relations.

A Tentative Minnesota Balance Sheet[8]

Status: Minnesota is one of forty-eight states that constitute the Union called the United States of America, - an "indestructible union of indestructible states," - which has become a nation that economically, militarily, and in generally high standard of living is the leading nation of the world.

Age as a State: The thirty-second state to enter the Union, Minnesota is relatively one of the younger states, just under 100 years of age, but with considerable political experience, wholesome public standards, good traditions, good credit, a good reputation, and with considerable undeveloped possibilities.

Location: North central, peripheral and adjacent to Canada, rather far from the greatest markets, trade and population centers, and certain raw materials, and with a real problem in transportation and communication costs.

Climate: Fine summers, excellent for exploiting recreational facilities, but with rigorous winters that entail extra public and private expense for building and road construction, road maintenance, heating, and other purposes.

Natural Resources: Millions of acres of the best United States farm land, the largest bodies of iron ore in the nation, adequate waters and large recreational resources, much growing timber for pulp and lumber production, quarrying stone, good gravel, and other items.

Areas: Minnesota stands eleventh in area among the states, with 84,068 square miles of land and inland waters, or 2.78 percent of the nation's 3,022,287 square miles. It is 33 per cent larger than the theoretically "average" state (62,900 sq. mi.) and 50 percent larger than the theoretical median state (56,250 sq. mi.)

Population: Now estimated at over 3 million persons and of high average intelligence, morality and public spirit, the population of Minnesota ranks as eighteenth in numbers among the forty-eight states, yet it is about 10 percent below the nationally average state (about 3,400,000 population). With larger than average area and smaller than average population, Minnesota has only about 3/4ths of the average national density of population. Its urban population (54 percent) is also well below the national average (64 percent). There is ample room for further population growth, but in the meantime the sparsity of population and the relatively long distances make for higher administrative, transportation, and other costs - both public and private.

Economic Base: (1) Agriculture a large, secure and prosperous industry, well diversified (corn-hog, dairying, small grains, some specialities, and mixed farming).

(2) Large agricultural processing industries.

(3) Iron mining and iron ore processing a large industry.

(4) Manufacturing industries generally a large and increasing part of the state's economy, and growing somewhat faster than the nation's industries generally.

(5) Lumbering reviving and with good prospects for further growth, along

with pulp and paper industry.

(6) Ample banking and credit, insurance, communications, transportation, etc., for serving not only Minnesota but also adjacent states.

But on the minus side, the lack of coal, oil, natural gas, and other raw materials in the state, and the relative inadequacy of water power, coupled with distance from major markets and high transportation costs, present real obstacles to be overcome.

Income Payments Received: Minnesotans stand in 24th place, or at about the median in incomes per capita received, but below the national average by about 10 percent; but are gaining on the national average rather consistently.

Individual Income Taxes paid to the national government are below the national average per capita by about 10 percent.

National Expenditures in the State seem to be above the national average. This factor is discussed in Chapter 8.

State and Local Taxes Paid in State relatively high, at top of second quartile, or approximately in thirteenth place (1953).

State and Local Government Expenditures, also relatively high, in keeping with taxes paid. High standards of public service in education, public health, welfare and institutions, highways, conservation of natural resources, courts and law enforcement, urban services, and other fields.

State and Local Debts in Minnesota lower than national averages.

State Trust and Endowment Funds, for public schools, University, and internal improvements, at a high level and well managed. Some original lands still yielding ore royalties and other income. Large areas in state forests and conservation areas. Total value of these assets exceed state debts.

There are pluses and minuses in this balance sheet, but the pluses surely predominate. From pioneer days, through depressions, wars, and other crises, the people of Minnesota have made steady progress in establishing a firm economic base, high grade public institutions and services, improved standards of living, and a sound social and political structure. If they have not moved forward as swiftly or increased as rapidly in recent years as some other states, neither have they suffered any serious setbacks.

Footnotes

1. Instead of trying to document each item in this chapter I list here a few general sources that I have relied upon for information about Minnesota and other states. First in importance because most comprehensive and most authoritative was the Statistical Abstract of the United States 1954, a Department of Commerce, Bureau of the Census, publication 1954. The tax Foundation's compendium of Facts and Figures on Government Finance 1954-55, New York, 1954, though unofficial is highly reliable and was exceedingly useful. The 1954 World Almanac and Book of Facts was also used to some extent.

2. For corroboratory evidence and some explanations of this trend see the following issues of Business News Notes, published by the School of Business Administration of the University of Minnesota: No. 8, March 1953, O.H. Brownlee, Some Features of Minnesota's Economic Growth, 1929-51; and No. 25, June 10, 1955, Francis M. Boddy, Industrial Growth in Minnesota.

3. Much has been written on the subject of Minnesota's position among the states with respect to the level of state and local taxes. My calculation is based upon the tables on pages 155 and 190 of the Tax Foundation's Facts and Figures on Government Finance 1954-55. The table for state taxes in the volume, page 155, includes the unemployment compensation tax, an important item in industrial calculations that is left out of some other studies.

4. Arthur M. Borak, Comparison of Taxes and Costs of Government in Minnesota and Ten Other States, in University of Minnesota, School of Business Administration, Business News Notes, No. 9, June 1953.

5. See the Minneapolis Star, July 9, 1953.

6. Minnesota Legislative Research Committee, Minnesota's State and Local Tax Burden, Publication No. 50, November 1952.

7. United States Department of Commerce, Bureau of the Census, Governments in the United States in 1952, Washington, 1953.

8. For somewhat similar condensed efforts at such a summary see: Minnesota Resources Commission, Economic Analysis of the State of Minnesota (An Interpretation Based on the Report of the G.S. White Engineering Corporation of New York,) St. Paul, March, 1945; Minnesota Institute of Governmental Research, Comparison of Costs of Government, in Minnesota and Six Neighboring States, State Governmental Research Bulletin No. 19, St. Paul, March, 1947. Especially pages 4-13.

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State Payments to Local Governments and the State-Local Fiscal Balance

In a nationwide study by the Bureau of the Census covering the year 1952, Minnesota was reported to have paid to local governments within the state in that year over $119 million dollars. This amounted to $39.83 per capita, well above the 48-state average of $33.06, and put Minnesota in 13th place among the states in the per capita amounts of such payments. The sums that the state government passed on to the local governments amounted to 40.2 percent of its total expenditures, and made up nearly one-third of the funds for the combined expenditures of all the local governments in the state.

The development of state participation in the financing of local governments is a relatively recent but nationwide phenomenon. Every state in the Union follows to some extent the practice of channeling funds collected by the state into local government treasuries for local expenditure. California leads the states both in totals of state payments to local governments ($812 million in 1952) and in per capita amounts ($73.67 in 1952).

When Minnesotans framed a state constitution and were admitted to the Union about a century ago (1857 and 1858) there was no discussion or thought, as far as I have been able to ascertain, of the state government giving any financial aid to the local units. It was a time when both state and local services were just beginning in Minnesota, and when public services generally throughout the states were few and comparatively inexpensive. Furthermore, the property tax was the principal source of revenue for both central and local governments, and in the years of Minnesota's territorihood local tax collections seem to have preceded and exceeded territorial tax collections.

The Constitution of the United States divides the responsibility for the functions of government between the national government and the several states. It makes no mention of local units of government. All functions not delegated to the national government, such functions as highways, roads, and streets, public education, relief and welfare, courts and ordinary law enforcement, for example - clearly fall within the powers reserved by the Constitution to the states, and for which the states as such are responsible. It is not necessary to list these functions in the state constitution in order to bring them within the purview and responsibility of the state governments.

But tradition and practice are in many ways stronger than constitutional prescriptions. From colonial days on through the Revolution and the early decades of statehood in the Union it had been the tradition and the practice of legislatures to delegate both the financing and the performance of the essential civil functions to the local governments of the counties, towns, boroughs, and cities. The legislatures authorized the creation of these local units, empowered them to elect and appoint officers and to levy taxes, and imposed on them numerous duties like opening, improving and mending the roads, constructing and maintaining bridges, building schools and employing teachers, providing courts and officers of the law, and caring for the poor. The state legislature passed the necessary laws and maintained a general control of public policies, but there was little or no direct performance of public services by the states themselves throughout the early history of the states. The local governments legally were and still are agents of their states for many state-local purposes.

In establishing local administration and financing for the major state functions the early legislatures in Minnesota did little more than conform to the strong spirit of localism and self-government that prevailed among the people. In other words, the people seem to have wanted it that way. To some this meant the freedom to shirk and neglect their public duties and to keep the taxes down to a minimum, because the state could hardly compel the local units to act. To others, and the larger part of the population, it spelled the opportunity to begin to develop and to improve those services that brought greater security, better roads, increased education, and other services tending to promote the general welfare of their own communities.

In short, Minnesotans began their provision for the public services in the manner already established in other states, with local control, local responsibility, and practically complete local financing through property tax levies. The territory and later the state had some small cash grants and land grants from Congress for internal improvements with which to extend and improve some roads, but these amounts were the proverbial drop in the bucket. They undoubtedly gave people ideas about the possibilities of financing through central grants-in-aid, but they gave almost no financial relief to the local governments and the local taxpayers.

The Congressional grant of lands to the state for public schools was of a different order of importance from those for internal improvements. It consisted of two sections of land in every township (earlier states had received only one section per township) or the equivalent "for the use of schools". By the terms of the state constitution the people accepted the conditions of this and other grants offered by Congress (Minnesota Constitution, Article 2, section 3), and also provided (Article 8, section 2) that

> "The proceeds of such lands as are or hereafter may be granted by the United States for the use of schools within each township of this State shall remain a perpetual school fund to the State;...The principal of all funds arising from sales or other disposition of lands or other property, granted or entrusted to this State in each township for educational purposes, shall forever be preserved inviolate and undiminished; and the income arising from the lease or sale of said school land shall be distributed to the different townships throughout the State, in proportion to the number of scholars in each township, between the ages of five and twenty-one years; and shall be faithfully applied to the specific objects of the original grants or appropriations."

This section and certain related provisions of the state constitution provide the legal basis for the State's Permanent School Fund. Some leaders in the early state legislatures made strenuous efforts to split up the fund so that each township would have its own "perpetual" school fund but these efforts were defeated and single state trust fund was established. Thus Minnesota made at the very beginning of statehood an important centralizing decision, and from that decision it has not departed. In 1862 the first land sales were made, and before the end of that year land sales came to nearly $250,000; and over $12,000 in earnings was distributed among the counties for local school support. By 1900 the permanent fund exceeded $12 million and the income distributed from it to the schools that year was over $650,000. Today (1955) the Permanent School Fund exceeds $200 million and the annual distribution of earnings to the school districts is about $4 million from this fund alone. To this distribution is added each year 50 percent of the earnings of the Swamp Land Fund, a fund of later origion, which now approaches $25 million, and which yields for school uses over $300,000 a year.

The present size of the Permanent School Fund is in large part the result of the allocation to it for many years of 40 percent of the proceeds of the tax on the occupation of iron mining, as shown in Chapter 9, above. In 1952 when the fund exceeded $169 million, the occupation tax had contributed $69 million and the land grants $100 million. By 1954 the occupation tax's contribution had risen to over $87 million and that of the land grant to $105 million, for a then total of $192 million. The remaining school lands still bring something to the fund each year especially in the form of iron ore royalties, but not nearly as much as the occupation tax yields. A constitutional amendment proposed by the 1955 legislature to terminate the present fund building arrangement in the occupation tax and to permit the 40 percent of that tax now annually invested in the Permanent School Fund to be used instead for current school purposes, will be voted on in November, 1956. If ratified by the voters this amendment will slow down the increase of the capital fund, and will make around $10 million available annually for current school expenditures.

The existence of the munificent federal grant of lands for public schools led some early leaders in the state to entertain visionary hopes that the permanent school fund would provide much if not most of the revenue needed for the school system. As they exaggerated the possibilities of revenue from the permanent fund they tended to overlook the responsibility for school support imposed on the legislature by other provisions of the state constitution. These included the following two in particular, which have been a part of Article 8 of the constitution from the beginning:

"Section 1. The stability of a republican form of government depending mainly upon the intelligence of the people, it shall be the duty of the legislature to establish a general and uniform system of public schools.

...

"Section 3. The legislature shall make such provisions, by taxation or ot otherwise, as, with the income arising from the school fund, will secure a thorough and efficient system of public schools in each township in the state...."

From 1862 onward the state apportioned among all the school districts the annual earnings of the Permanent School Fund, but provided no direct state tax support for schools. As population increased the demand for schools and other public services grew even more rapidly. Clearly the earnings of trust funds like the Permanent School Fund could not grow fast enough to carry the added burdens even for schools. Men thought more and more in terms of increases in taxes and larger units of government to carry the tax burden. Larger governmental units, and notably the state itself, could obviously distribute the tax burden for locally administered services more equitably than could be done through a multiplicity of unequal but small local units of government. Consequently, people in the state began to agitate for state aid to local governments to help them out on the support of schools, roads, and other expensive services.

As early as territorial days the counties had been authorized to levy and collect a county-wide property tax to assist the school districts in the county on a per-pupil basis. This had an equalizing effect that was later destroyed by a change in the law, but the idea was not forgotten.

It was the rise in the demand for high schools that finally brought action for state aid from the legislature. In 1878 when the development of high schools was being especially fostered, and was adding considerably to the local property taxes, the legislature passed a law offering $400 annually to each high school that would accept non-resident students free of tuition and would offer work preparatory to matriculation in the University.

The increasing urbanization of the state, and the increased demand for more and better graded schools later led to more state aid for schools. In 1895 a new law offered $200 a year in state funds to each approved grade school; and in 1899 still another act extended the offer of state aid to four classes of public schools, -high, graded, semigraded, and rural. The money was to come out of the general funds in the state treasury, and these in turn came mainly from property taxes and from corporation gross earnings taxes levied in lieu of property taxes. Thus the principle of annual state aid for local school districts out of general state revenues came into operation in Minnesota. From this period on the school districts could count on not only the apportionment from the Permanent School Fund but also upon tax-supported state aid.

The state constitution included no provision comparable to that for schools requiring the legislature to provide by taxation or otherwise for the support of such other major functions as highways, roads, and streets, poor relief, public health, and law enforcement, for example, but the state's obligation to provide for these services was constitutionally the same under the United States Contitution. Toward all these constitutional obligations the legislature's first reactions were the same, --to impose the duty of financing and providing for them upon the local governments. Even when it came to the point of beginning to assume some financial responsibility for them its approach was a one-at-a-time, limited and experimental approach. In each case, also, it left the control and management in the hands of locally elected officials, and merely provided a small amount of financial aid and a very meagre amount of state supervision. The beginnings had been made, however, and in time the state's participation would become financially much greater and operationally, at least in highways, more direct.

The next step toward a broader program of state aid for local governments affected the financing of rural road construction and maintenance. Although Congress through such agencies as the War Department and the Department of the Interior had provided for the laying out and opening of hundreds of miles of roads in Minnesota before and during territorial days, the state government that came into being in 1857 was even more restricted than its predecessor, the territorial government, had been in its ability to participate directly in road building. As already stated, the state government was forbidden by the state constitution to engage in works of internal improvement except to the extent that land or money had been granted to it for this purpose. Congress had indeed made 5 percent of the proceeds of federal land sales in Minnesota available to the state, and had granted it some lands for internal improvement purposes; but the total proceeds of these grants available for road-building from statehood (1858) through 1896 averaged less than $20,000 per year. The first state legislature in 1858 imposed upon the town governments the duty to provide roads, and it was the supervisors in hundreds of organized townships who for the next forty years had almost the sole authority for providing roads in Minnesota. Those were the days when men "worked out their road taxes" with pick and shovel and horse-drawn road scrapers.

Finally, after long agitation over the question of improving the rural roads ("getting the farmer out of the mud") the 1897 legislature proposed a constitutional amendment (adopted by the voters in 1898) to establish a state road and bridge fund. To the annual earnings of the "internal improvement fund", based on the federal land grant, the legislature was authorized to add the revenue from a 1/20th of one mill tax on property throughout the state, which it might levy if it felt so inclined, to provide an annual sum for the construction by the counties of state approved roads and bridges. A state highway commission of three members was to exercise supervision over the county highway departments because the latter would be building state highways with state funds although the state would in no case provide more than one-third of the funds for construction on any project.

In the following years the road and bridge fund amendment was changed several times up to and including a change in 1912 by which the permissible state tax levy was raised to one mill and the limit on the state's proportion of payment on a road project was eliminated. Through all these changes, however, the rule of apportionment among the counties remained unaltered, to wit, not less than 1/2 of 1 percent and not more than 3 percent of the fund was to go to any county any year.

With the beginning of state aid for schools in 1878 and of state aid for county construction of roads and bridges twenty years later, the state of Minnesota began to assume some direct financial responsibility for two major state functions, schools and highways.

The amounts of aid provided by the state to school districts for schools and to counties for highways in earlier years were small by more recent standards. Professor Robinson showed in his study for the year 1911, which was 33 years after state aid for schools was begun, the following sums going out from the state to local school districts (in round figures):

High school aid, including departments of agriculture and teacher training in high schools,	$ 418,000
State aid for rural and graded elementary schools,	470,000
Apportionment of permanent school fund, (still by far the largest item)	1,944,000
Travelling and school libraries,	45,000
Other receipts from state,	245,000
Total	$3,122,000

This total appears to have been about 23 percent of the moneys available from all sources to the school districts in that year.

For highways under the road and bridge fund the sums made available to the counties in that year were much less, - only $83,326 out of total county expenditures for all county purposes of $9,312,000.

The other sums transferred by the state to local governments in 1911 as shown in Professor Robinson's study were (in round figures):

For city and village fire companies (from the insurance company tax) $128,000.

To counties for wolf bounties $ 29,000.

Increases in State Payments Since 1911

The turning point toward greater state participation in the financing of local governments in Minnesota, and, indeed, throughout the nation, came after 1912, with one strong upward movement following World War I, another during the depression of the 1930's and a third during and after World War II. One important factor during the past five decades, in addition to the demands made by wars and depression, has been the generally changed financial policy of the national government. That policy includes the ideas of helping to stablilize and expand the nation's economy, trying to maintain a high level of employment, fostering improvements in the standard of living, and promoting a wider distribution of the benefits of increased production among all elements in the population.

To attain these ends it is necessary to improve and expand the public services; national, state, and local, to keep step with improvements and expansions in the private sectors of the economy, and to assist in the maintenance and expansion of the purchasing power of the people. More and better automobiles create a demand for more and better miles of road. The maintenance of income for farmers, workers, aged persons, and all other major classes of people is necessary not only for the welfare and security of those classes but also to provide effecting demand for increasing quantities of goods. Most of the advances in science and technology can be put to full use for the health and welfare of the people only when public services in health, education, agriculture and many other fields are developed to supplement the private activities of the people.

It has been largely but not entirely through grants-in-aid that the national government has stimulated and helped to support the expansion and improvement of state and local services. Grants-in-aid to the states for land-grant colleges, agricultural experiment stations, and agricultural extension work were followed in

1916 and later years by grants for highway construction and for conservation work. Then in the 1930's came federal grants for a broad social welfare program, including employment security administration, old age assistance, aid to dependent children, and aid to the blind. Public housing for low income families and urban redevelopment and renewal also came upon the scene largely through federal grants-in-aid. Grants for various public health services and for child welfare (begun before the 1930's), and later grants for hospital consturction, offer additional examples of national efforts to promote the general welfare through state administration of services.

But in Minnesota as in other states the various federal grants had to be accommodated to the existing pattern of state-local relations. Although in some fields Congress insisted that the states must assume direct responsibility for the proper spending of the funds offered, in general Congress could be satisfied if the states would see to it that the local governments to which the funds were channelled would do a proper job. The federal grants necessitated a certain amount of state centralization as in the requirements that the states provide responsible state highway departments and state welfare agencies with whom the national authorities could deal. But in general there was less interference with state-local patterns of organization and relations than might have been expected.

One result of federal stimulation of state activity in some fields was to arouse the local authorities to demand more funds and authority for themselves. In highways, for example it would not do to put all the money into a fine but limited system of paved state trunk highways between the main centers of population and leave the automobilists to struggle over unimproved and neglected secondary and minor roads as soon as the left the main state highways. In Minnesota as in most states there was no thought of turning all the rural roads over to the state, and even if this had been done, federal aid would have been available for only the main routes. To enable them to handle the secondary and minor roads adequately the rural people and the residents of small communities, with considerable support from urban centers, demanded that the states share with the counties the increasing revenues that began to come in from motor vehicle licenses, gasoline taxes, and related "road-suer" sources.

In Minnesota the statewide one-mill "road and bridge fund" tax continued to be collected for many years for distribution to the counties, and in 1928, by legislative proposal and popular approval the state constitution was amended to require that the revenue from the state gasoline tax, which had formerly all been dedicated to the state trunk highways, be divided so that one-third would go into the road and bridge fund for county expenditure on so-called "state-aid" roads. (Minnesota Constitution, Article 9, section 5). This resulted in a substantial and almost immediate increase in county highway funds, although there was also some reduction in the following years in county property tax levies for highway purposes.

What happened in the field of highway finance shows rather clearly how the pressures for maintaining and strengthening local governments and their services operated in response to or reaction against the steady strengthening of state financial resources.

The constitutional amendment previously mentioned that dedicated 40 percent of the revenue from the occupation tax on iron mining to the Permanent School Fund, and the statutory dedication of the income tax revenue to public schools, are other manifestations of a strong feeling that the local units of government and their basic services need to be assured of ample revenues. When the national social security program was set going in the late 1930's on a grant-in-aid basis for old age assistance and other categorical services, the Minnesota legislature left the administration of these measures largely in county hands and arranged for adjustments in county taxes and other revenues plus appropriations from the state treasury to meet the matching requirements of the federal law.

Along with schools and highways the public welfare services thus became a third major field for state payments to local governments in Minnesota. On a smaller scale payments for health and hospitals and for airport construction have followed a similar course under the influence of national programs of aid to the states for those services.

In an indirect way, therefore, federal aid to the states in several fields has brought repercussions and readjustments that have enlarged the revenues, the responsibilities and the importance primarily of the county governments, but even without a major program of federal aid as a stimulus the school districts have obtained substantial aid from the state to meet their responsibilities.

The Various Types of State Payments

State payments to local governments in Minnesota are sometimes called simply "state aid". As a matter of law and of fact there are a number of different types of payments lumped together under the vague term "state aid", and for clarity of thinking these different types should be defined and distinguished. The term used by the Bureau of the Census, namely "state payments to local governments" is a very comprehensive one that avoids any implication that all payments or transfers of funds are "state aids".

The term "grant-in-aid", which originated in England, has come to be used in the United States to designate a fairly definite type of national government payments to the states. It refers to certain regular payments authorized by act of Congress and appropriated by Congress from general funds in the Treasury to the states for the performance of specific functions like highway construction or aid to dependent children on certain conditions. These requirements usually include a state agreement to conform to the appropriate acts of Congress, the submission by the states to the national government of a plan for spending the money, the approval of this plan by the national authorities, a certain amount of matching of funds by the state to receive the federal grant, and the acceptance by the state of a measure of national supervision over the state's expenditure of the funds. At the minimum this federal supervision includes a federal financial audit of the state's expenditure of the grant. State aid to local governments does not involve such features as submission of a local plan for spending the money, the acceptance of a series of conditions, or any matching of funds although some minimum effort by the local government may be required by state law.

Implicit also in the idea of a grant-in-aid is that it is a sort of gift, a free will offering by one who owns or controls something and who is free to give it or not give it, but does give it to one who had no previous right or claim to it. In this sense various state payments to local governments in Minnesota are not grants at all. This is definitely the case with the apportionment of the income of the Permanent School Fund. This is a "trust fund" for which the state government is only the trustee, although it has proved to be a very good trustee. This fund arose, as we have seen, in large part out of a land grant by Congress that required the proceeds to be put into schools, and was further dedicated to the schools by the votes of the people in approving the constitutional provisions that control the fund. Neither the legislature nor any other branch of the state government has any right to grant or withhold this fund, and the public schools do have a constitutional right to the proceeds of the fund.

I think that much the same can be said about the one-third of the revenue from the gasoline tax that is dedicated by a constituent vote of the people to use by the counties upon the roads that fall within their jurisdiction under the terms of the Road and Bridge Amendment to the state constitution. Other constitutionally dedicated funds are of the same nature. They are not free-will grants on the part of the legislature or even of the state government as a whole.

Also, as I have already suggested, even where the state constitution does not guarantee the continuance of particular state payments to local governments, local authorities and those interest groups that support public services for education, highways, conservation or any other purpose, soon come to think of legally established payments as belonging of right to the designated services and to the local units that administer them, and not at all as mere matters of grace and gift on the part of the legislature. The legislature of Minnesota could lawfully withdraw the dedication of the income tax to school purposes, and put that entire revenue into the state's general fund, but the resistance to such a change would be extremely strong. Indeed, the grant-in-aid principle, first applied among English-speaking peoples in

Great Britain under a monarchial form of government, has lost much of its original nature as a free-willing offering on the part of his gracious majesty's government in its development under American democratic and republican principles. Even the federal grants-in-aid to the states today are considerably different in this respect from the early federal grants of land to the states.

Another characteristic of some important state payments to local governments in the fields of public welfare, education, and health and hospitals is that state funds and federal funds are more or less commingled in the so-called "state payments" to the local units. In the 1952 state payments to the counties of $29,413,000 for old age assistance, $16,208,000 was federal money, and so was $4,255,000 out of $7,286,000 of state payments for aid to dependent children. In $1,391,000 of vocational education payments, $575,000 was federal money, and in $1,252,000 of state payments for the school lunch program over 80 percent ($1,083,000) was federal money. For airport construction the state turned over $718,000 to local airport authorities in 1952, but $686,000 of this came from the national government. Where funds are so commingled and where there are national, state and local understandings about financing and promoting specific services, a clearcut state grant-in-aid is hard to make out.

Also, where a general dedication is made by law of a certain revenue like the income tax to a local service as comprehensive as elementary and secondary education, it is not true as is frequently implied, that the state legislature has lost control over the funds. In the case of the income tax school fund, for example, the legislature controls continuously the specific uses to which the money is to be put by the school districts. The largest amount goes into "basic aid", so-called, while other sums are put into "per capita aid", "equalization aid", "transportation aid", and other categories that are established, and from time to time changed, by the legislature. The controls by the legislature could hardly be more complete if the payments were made out of general state funds appropriated by the legislature.

Some of the state payments to local governments are more in the nature of shared taxes than state grants-in-aid. The most clear-cut cases of shared taxes are those in which the state imposes and collects certain taxes and allocates definite protions of the revenue to general-purpose local governments like counties, cities and villages for use by them as part of their general revenues. In other words the units that are to receive and spend the money are designated in the laws but not the specific services or functions on which they may be spent. Thus in Minnesota 30 percent of the state alcoholic beverage sales tax is allocated to cities, villages, and towns for their general purposes, and in proportion to their respective populations. The same rule applies to 25 percent of the state taxes on cigarettes and other tobacco products except that the 25 percent goes to cities, villages, and counties, and no part goes to the towns.

When it happens, however, that a tax-sharing is made for the benefit of single function units like school districts, or for a single function of multifunctional units like counties or cities, for example, we have not a simple tax-sharing, but a case of combined tax sharing and functional dedication of the revenue. Such is the case of the 100 percent "sharing" by the state with the school districts of the income tax, and the sharing by the state with the counties of 33 1/3 percent of the gasoline tax to be used for highway purposes. The same is true of the cities' share of the fire insurance premiums tax, which is paid to the cities for fire protection and for firemen's pensions and relief.

There are also state payments to local governments that are in effect payments to replace taxes on property that local governments lost the power to tax when the state declared its own tax to be in lieu of all other taxes on the property. The gross earnings tax on railroads levied in lieu of all other taxes on railroad property had a very serious adverse affect in communities like Two Harbors, Brainerd, Dilworth, and others where railroad property constitutes a high percentage of all privately owned property. The legislature has for years made regular small appropriations to relieve these communities of the hardship imposed upon them.

For an analysis of recent state payments to local governments in Minnesota I shall rely primarily on the Bureau of the Census study for 1952, which I have already cited. The tables in this report are not entirely complete, however. They leave out not only several payments of little fiscal importance but also several larger ones that are not made directly to the local governments concerned but go instead to local officials, or to contractors or others who are doing work beneficial to the local unit. Thus the money appropriated by the legislature to the University of Minnesota for its agricultural extension service to pay to county agricultural agents, and home demonstration and 4-H Club workers, does not appear in the Census report. Similarly, although federal aids channeled through the state treasury to counties for welfare services are shown, the federal aids for the urban streets that connect major highways, and for the rural secondary roads in the counties, are not shown because they do not go directly into city and county treasuries. Despite these omissions, however, the Census report is the best one available for comparing the various states with respect to their payments to local governments.

The following table is, therefore, based upon the Census report.

Table 1.
1952 Minnesota State Payments to Local Governments
(in thousands)

	Functions	Payments			Payments				
		Total	From U.S.	From State	To Counties	To School Districts	To Cities & Villages	To Towns	To Other Soc. Gov'ts.
Public Welfare	O.A.A.	29,413	16,208	13,205	29,413	___	___	___	___
	A.D.C.	7,286	4,255	3,031	7,286	___	___	___	___
	Gen. Relief	484	___	484	484	___	___	___	___
	Equalization	565	___	565	565	___	___	___	___
	Children under Guardianship	388	___	388	388	___	___	___	___
	Total	38,136	20,463	17,673	38,136				

	Functions	Payments: Total	From U.S.	From State	Payments: To Counties	To School Districts	To Cities & Villages	To Towns	To Other Soc. Gov'ts.
Education	Perm. School Fund	3,753	—	3,753	—	3,753	—	—	—
	Per Capita Aid	5,346	—	5,346	—	5,346	—	—	—
	Basic Aid	32,935	—	32,935	—	32,935	—	—	—
	Equalization Aid	7,050	—	7,050	—	7,050	—	—	—
	Transportation	5,122	—	5,122	—	5,122	—	—	—
	Handicapped Children	861	—	861	—	861	—	—	—
	Other Special Aids	103	—	103	—	103	—	—	—
	Gross Earnings Replacement	550	—	550	—	550	—	—	—
	Tax exempt. land aid	100	—	100	—	100	—	—	—
	Noc. Ed.	1,391	575	816	—	1,391	—	—	—
	School Lunches	1,252	1,083	169	—	1,252	—	—	—
	Indian Education	265	265	—	—	265	—	—	—
	Total	58,728	1,923	56,805		58,728			
Hwys.	Gas tax sharing	12,213	—	12,213	12,213	—	—	—	—
Health & Hospitals	Tuberculosis Sanatoria	681	—	681	681	—	—	—	—
	Public Health Nursing	88	—	88	88	—	—	—	—
	Hospital Construction	1,031	1,031	—	440	—	591	—	—
	Total	1,800	1,031	769	1,209		591		
Non-Hwy. Transportation	Airport Construction	718	686	32	—	—	245	—	473

	Functions	Payments Total	Payments From U.S.	Payments From State	Payments To Counties	Payments To School Districts	Payments To Cities & Villages	Payments To Towns	Payments To Other Soc. Gov'ts.
General Purposes	Alcoholic Beverage sales tax sharing	2,952	—	2,952	—	—	2,000	952	—
General Purposes	Cigarette sales tax sharing	2,758	—	2,758	965	—	1,793	—	—
General Purposes	Bank Excise tax sharing	1,928	—	1,928	—	—	1,928*	—	—
General Purposes	Death & Gift tax sharing	690	—	690	690	—	—	—	—
General Purposes	Gross Earnings tax Replacement	95	—	95	30	—	65	—	—
General Purposes	Total	8,423		8,423	1,685		5,786	952	
Miscel. & Combined Purposes	Fire Insur. Prem. tax Distribution	524	—	524	—	—	524	—	—
Miscel. & Combined Purposes	25% U.S. Forest Revenue/	(No distribution in 1952)							
Miscel. & Combined Purposes		524		524			524		

Summary of Totals

	Functions	Total	From U.S.	From State	To Counties	To School Districts	To Cities & Villages	To Towns	To Other Soc. Gov'ts.
TOTALS	Public Welfare	38,136	20,463	17,673	38,136	—	—	—	—
TOTALS	Education	58,728	1,923	56,805	—	58,728	—	—	—
TOTALS	Highways	12,213	—	12,213	12,213		—	—	—
TOTALS	Health & Hospitals	1,800	1,031	769	1,209	—	591	—	—
TOTALS	Airports	718	686	32	—	—	245	—	473
TOTALS	General Purposes	8,423	—	8,423	1,685	—	5,786	952	—
TOTALS	Miscellaneous	524	—	524	—	—	524	—	—
		120,542	24,103	96,439	53,243	58,728	7,146	952	473

* This figure is believed to be substantially correct. This tax is distributed among local units, primarily if not entirely cities and villages, in which the banks are located.

/ The state received $156,000 from the national government in 1952 but made no distribution thereof to local governments that year.

The foregoing historical account of state payments to local governments in Minnesota coupled with the analysis of the payments and the tabulation of the amounts in Table 1. help to make a little clearer what has been taking place.

For better or for worse, almost from the beginning of statehood, the general property tax, discussed briefly in Chapter 9 proved unsatisfactory and inadequate to meet the needs of the state and local public services. Administered locally, unevenly, and almost everywhere rather poorly, the tax was always under public attack. The condemnations directed against it alleged, among other things, inefficiency, inequalities, and favoritism in the enforcement of the tax, and competitive undervaluation of property among taxing districts so as to avoid paying their fair shares of statewide and county-wide levies. As the demands for public services increased, the lack of any close correlation between what different communities could raise by taxing property and what they needed in revenue became increasingly clear. The state legislature began early and continued into the present century to seek other tax sources to supplement, or to substitute for, the property tax for state purposes, and at the same time it controlled and began to restrict the property taxes levied by local governments. Among other things it narrowed the property tax base by taking one class of property after another out of the taxable list. As a result local governments of all classes, having no other tax available to them, found it impossible to expand their services as rapidly as the demands came.

Informed persons recognized, however, that some of the most important and most expensive locally-administered services were clearly of statewide concern, and the legislature was under ever increasing pressure to provide the local units with revenue from other sources to provide for these services. In 1878, as we have seen, secondary education became the first statewide service to be recognized with state aid appropriated out of state general funds. Aid to the counties for the construction of "state aid roads" came twenty years later. In the depression of the 1930's came state aid to the counties to supplement federal aid for the major "categorical" welfare programs, such as old age assistance, aid to dependent children, and aid to the blind, to be followed later by other categories. In the meantime smaller aids for county agricultural extension services, tuberculosis sanatoriums, and public health nursing had also appeared.

Table 1. reveals several striking characteristics of state payments to local governments in Minnesota. The first is that the amounts of such payments have increased tremendously throughout the present century. Taking the figures for the beginning and the end of the forty-one year interval between 1911 and 1952 we find more to contrast than to compare. In 1911 the amounts were meagre, they went almost entirely to school districts for education, with a much smaller amount to counties for highways, and the apportionment of the earnings of the Permanent School Fund was the largest single item paid out. By 1952 the amounts of state payments to local governments had increased greatly, both absolutely and in proportion to other state expenditures, as well as in proportion to local expenditures although both state and local expenditures had also increased greatly in the same period.

By 1952 also there were three major fields of state payments to local governments, - education, highways, and public welfare, - instead of one as before, and besides there were several other important though smaller fields, notably health and hospitals. Fully 90 percent of the 1952 state payments went into the three major services, and because these functions were handled almost entirely by the two statewide classes of local government, namely counties and school districts, these two classes combined received over 90 percent of all state payments to local government. Out of $120 million in state payments in 1952, school districts received nearly $59 million for their educational purposes, while counties received over $53 million, nearly three-fourths of which was for public welfare and nearly one-fourth for highways. Whereas the apportionment of the Permanent School Fund had in 1911 accounted for over half of the state payments to local schools, by 1952 it accounted for only one-sixteenth or 6.3 percent.

The major state payments to counties were not for their general governmental purposes but instead were earmarked for specific functions, and mainly for welfare payments and highways. The payments to school districts were all for educational purposes.

Federal Aid to the state in 1952 supplied much of the money for the state's payments to counties for public welfare work (over $20 million out of $38 million), but in 1911 there was neither state nor federal aid to local governments for welfare purposes. In education the federal payments passed on by the state to the counties in 1952 amounted to nearly $2 million, but this money went into a few marginal educational services (vocational education, school lunches, and Indian education) and not into the general support of elementary and secondary education. As already indicated above, there was in 1952 substantial federal aid for major city streets and for rural secondary roads, but this is not shown in the table. All told, therefore, federal aid was having a marked effect in the increasing of state payments to local governments.

As we turn to consider state payments to the local subdivisions of the counties,- the cities, villages, and towns, - we see a different situation. The amounts involved are much smaller, - $8,098,000 to cities, villages and towns, which is less than 7 percent of all state payments to local governments, and $952,000 for towns. The amount for cities and villages rises to $8,571,000 if the payment of $473,000 to the Minneapolis-St. Paul Metropolitan Airports Commission be included, but this total is still just over 7 percent of the grand total of over $120 million.

Of the amount received by cities and villages, including the Metropolitan Airports Commission, $718,000 was for airports, $591,000 was federal aid for hospital construction, and $524,000 came from the fire insurance premium tax to be used for fire departments and fireman's relief and pension systems. These earmarked funds totalled $1,833,000. The rest of the money transferred to cities and villages, $5,786,000, was practically all of the nature of shared taxes and was available for general city and village purposes. This money came from the alcoholic beverage sales tax, the cigarette sales tax, and the bank excise tax primarily, but $65,000 was a state appropriation to a small number of especially hard hit cities and villages as a replacement of property taxes unavailable to them because the railroad gross earnings tax is in lieu of regular property taxes.

The amount paid to the towns, $952,000, came from the alcoholic beverage sales tax, and was available to the towns for general town purposes.

It thus appears that, although state payments to cities, villages, and towns are much smaller than those to school districts and counties, most of what is paid over to them by the state is general revenue, to be budgeted and spent along with other general revenues. The amounts paid to the counties and school districts in 1952 came to approximately $37.50 per capita and amounted to about 40 percent of all the expenditures of those units that year. Many school districts received more than half of their revenues from state payments, cities and villages, on the other hand, serving over 2,200,000 of the state's population with a wide variety of services, received only about $3.75 per capita, and this amounted to only about 2.5 percent of their governmental expenditures for the year.

The towns stood at the bottom of the list in the total amount of state payments received ($952,000) and in per capita amounts (about $1.30 per capita for the approximately 740,000 rural farm population that they served); but since their services were relatively limited, and their total governmental expenditures comparatively small, about $17.00 per capita, their payments from the state were about 7.5 percent of their needs as compared with 2.5 percent for cities and villages. This takes no account of the county aid for town roads that the counties supply from their one-third of the gasoline tax receipts.

The State-Local Fiscal Balance

In Chapters 5 to 8 above, I attempted to define the fiscal balance between the nation and its government on the one hand and the state of Minnesota and its government on the other. Similarly in my book on Local Government and Finance in Minnesota in 1935 I made a partial effort to define the fiscal balance between the state of Minnesota and its government on one side and the local governments operating under it.

Any such attempt involves a variety of issues but those issues vary with the circumstances. One issue is whether the central government of nation or state dominates the revenue sources to the exclusion or at least to the detriment of the local governments under it. This issue is closely related to another one, namely, whether there is at both central and local levels a proper balance between the revenue resources available to each government concerned and the expense of the functions that it is legally and politically expected to perform. Other issues concern the regional distribution of costs and benefits. Does the central government take proportionately more revenue out of some areas than out of others for its own purposes? The proportion can be figured on a per capita basis, or on an income basis, or according to some other criterion. Also does it expend on its own services more in some parts of its area than in others, and is this regional distribution of its expenditures in balance with what it takes out of different regions or not? When grants-in-aid are imployed, are these distributed by the central government so that those regions that pay most get most in return, or is there a tendency to equalize burdens and services by taking more revenue from the wealthier regions and by spending more of it, by grants-in-aid or otherwise, in regions of lower incomes, which presumably contribute less to the central revenue?

A complete analysis requires that the places where the state spends on its own services and the places where it makes payments to local governments for their services be both considered, because one may serve to balance the other, at least in part.

Nationally and in every state there is also an urban-rural issue involved. To what extent, if at all, do the tax system and the grant-in-aid system of the central government combine to take more revenue out of the urban-industrial areas, and to spend more of it in or for the benefit of the rural areas, or vice versa?

Other questions relate to the balance of expenditures between state and local governments, and between various classes or types of local government. Are some advancing faster than others, and even changing ranks in their orders of importance?

My position with regard to the question of fiscal balance in Minnesota is this: I look upon the state as a single unit of government, a member of the Union called the United States. I believe the state has a constitutional duty to provide adequately for all its people and in all parts of its area, those public services that are not delegated to and provided by the national government. The range of the public services properly expected of a state changes and tends to increase with increases in population, wealth, education, the standard of living, and the technical possibilities of providing the services. The basic services expected of the state include general law enforcement, provision of adequate courts of law, education, relief of the poor and the handicapped, minimum economic security, protection of health both physical and mental, fire protection, water supply and sanitation, provision for public transportation by roads, waterways, and airways, the conservation and improvement of natural resources, some promotion of recreational and cultural opportunities, the protection and necessary regulation of economic rights and of the ownership and uses of property, the maintenance of civil rights, the fostering of the capacity of the people for self-government, the regulation of elections and of appropriate institutions and units of local government, and assistance to the nation and to other states in providing for the nation's security and in upholding and improving the onstitution of the United States and the federal, representative system of government.

In my judgment the state government should not (and it does not) attempt to provide all these services directly through its own departments and personnel. The sheer range and immensity of the tasks involved call for the collaboration of state and local governments and of private individuals and groups as well. The units of local government should be utilized to perform services as fully as reasonable considerations and evidences of efficiency, economy and capacity justify using them. If the local governments are to be utilized in this way for the continued performance of major public services they will need not only a considerable measure of local self-government and of policy making, but also to be of adequate and appropriate size and to have substantial sources of revenue under their own control. Unfortunately they do not all have equal economic resources or even proportionate resources to devote to the public services. Since it is the state as a single unit of government that is ultimately responsible for the entire range of services outlined above, I see no objection to the state's sharing important tax revenues with the local units and providing financial aid in other ways to equalize the burdens of local support of services of statewide concern; nor can I see anything wrong in a state's trying to equalize the quality and the quantity of the essential services throughout the state. Indeed, I not only see no objections to such a policy, but believe it is the only policy that is consistent with the constitutional responsibilities of the state. Whether the policy is being applied properly so as to give reasonably equal treatment to citizens in all parts of the state at any time is to me the important question. School equalization aid in Minnesota is, I believe, a good feature of Minnesota's aids to public schools, but recent studies suggest that it could be still further improved.

When in the early 1930's Minnesota was levying a statewide property tax at a uniform rate to support the road and bridge fund, and the revenue was being apportioned among the counties within the terms of the constitutional formula (not less than ½ percent and not more than 3 percent to any county) it was fairly easy to show that the taxpayers in the three most populous urban counties (Hennepin, Ramsey and St. Louis) paid in a great deal more than their counties received back in road aid, while many other counties, mostly in the northern, western, and upper central parts of the state received back considerably more than their residents paid into the fund. In other words the fund was working as it had been planned, bringing the resources of the urban industrial counties to the support of state roads throughout the state.

That fund was a small and fairly clearcut operation. It was based upon the property tax, and property has a fixed and definite loation which is usually at or near the residence of the taxpayer. To trace the money collected by this tax from the counties where it was collected to the different counties in which it was spent on road was a fairly simple operation. Today, however, the state gets its revenue both for its own functions and for payments to the local governments from a variety of sources, - taxes on incomes, gasoline, alcoholic beverages, cigarettes and other tobacco products, the occupation of iron mining, gross earnings of many corporations, inheritances, gifts, and other sources. The places where these taxes are paid give little evidence as to the persons by whom and the places where the actual burden of each tax is borne. Besides that, with modern highways, automobiles, and other means of travel and transportation, it is almost impossible to pinpoint the exact places where the benefits of particular expenditures are enjoyed. With modern automobiles and highways at their disposal Minnesotans today enjoy the public services not only in their own counties but more or less throughout the whole state. For these reasons I do not attempt to strike a balance of taxes and expenditures between urban and rural areas or between different regions within the state.

In reaching this decision I reserve judgment on the question whether such a study carefully made might not prove to be an important guide for public policy makers in the state. I incline to think that it would be. There are certain elements in the situation that stand out clearly though in rather rough outline. Some of these elements are as follows:

1. The state legislature generally dominates the tax sources of the state. Local governments are restricted almost entirely to the use of the classified property tax, which is not a <u>general</u> property tax, and is subject to may legislative limitations on tax rates, as well as statutory and customary restrictions on property valuations.

2. In exercising its control over the entire tax system the legislature has been mindful of the needs of certain local public services, especially education and highways, for which the income tax and one-third of the gasoline tax are earmarked or dedicated, albeit with state collection and distribution of the revenues.

3. The legislature has done something but much less to share tax sources with local governments for other purposes, and has not gone far in sharing taxes other than the property tax with local governments for their <u>general</u> local purposes.

4. Because of their importance in providing schools, highways and welfare services, the three most favored of all public services, the school districts and the counties have been especially favored with both shared revenues and legislatively-appropriated state aids. Cities, villages and towns have consistently received less consideration although cities and villages at least provide largely for certain services of statewide concern, much as general law enforcement, fire protection, public health services, hospitals, and certain welfare institutions.

5. Urban places (cities and villages of over 2,500 population) in 1950 included over 54 percent of the population of Minnesota, and continue to increase in population faster than the rate of increase for the state as a whole. Their needs are the needs of most of the state today, and as they increase still more they will need proportionately more revenue either from the property tax or from other sources. Their needs are for general or unrestricted revenue, not for specifically earmarked funds.

6. The balance between state and local expenditure has undergone a great change in the past 50 years. In 1911 the state spent upon its own services only 15 percent of combined state and local expenditures in the state, - about $10,400,000 out of $66,440,000. In 1951 the net governmental expenditures of Minnesota state and local governments were $559,448,000, or nearly nine times as much as in 1911. But in that 40 year period the state's expenditures on its own functions had increased to over $150 million, or about 1400 percent, while all local expenditures had gone up from $66 million to over $400 million or just over 500 percent. Thus by 1951 direct state expenditures on the state's own functions accounted for about 27 percent of combined state and local expenditures; while the local government share, which in 1911 was about 85 percent of the total, moved back to about 72 percent. We must remember, of course, that even direct state expenditures do not reflect accurately the amount of state taxation. To be sure after 1911 the state took on a trunk highway program supported by both motor vehicle and gasoline taxes; but federal aids also increased greatly in the same period, - aids for highway construction and for social welfare in

particular. Even so, the tendency toward the increase of direct state expenditure is an evidence that the balance between state and local expenditure has been greatly altered in recent decades.

7. Between classes of local governments, also, there has been a marked shift in the balance of revenues and expenditures since 1911. Although Professor Robinson's figures for 1911 are not on the same basis as those published for recent years by the Public Examiner his net receipt and expenditure figures (in the absence of definite expenditure data for all local governments) give some indication of the change that has occurred. In 1911 all local governments in the state spent $56 million in round figures. These expenditures were divided into $33.2 million for cities, villages and towns, and $22.8 million for counties and school districts, or about a 3 to 2 ratio in favor of cities, villages, and towns. In 1951, on the other hand, the net expenditures of counties and school districts together were $364 million and those of cities, villages and towns were $105 million, or a reversed ratio of nearly 3½ to 1 in favor of counties and school districts.

8. This great shift which has catapulted counties and school districts into the lead among local governments in the state is associated with a number of other changes that I have already mentioned. Federal stimulation of the good roads movement, the Minnesota trunk highway amendment, the reservation to counties of an important role in the secondary road field, and the later grant of a third of the gas tax to them for road purposes, was followed later by the federal social welfare program with grants-in-aid, and the shifting of most local social welfare work in Minnesota from the cities, villages, and towns to the counties. These changes account in large part for the increased fiscal and administrative importance of the counties. The state Permanent School Fund, state aid for schools in increasing volume, the dedication of the income tax to school purposes and other changes in the same direction, plus an expansion of school programs and the great growth of high schools with the raising of the school-leaving age, help to explain the greatly increased importance of the school districts and their finances.

9. Along with their increased fiscal and administrative importance, however, both counties and school districts have become more than ever dependent upon the state for their revenues. Whereas in 1911 the school districts raised over 75 percent of their funds from their own taxes, in 1951 they raised only 51 percent in that way. Counties, likewise, in 1911 raised over 75 percent of their "total receipts" and about 99 percent of their "general revenues", as defined by Professor Robinson, from their own tax levies, but in 1951 their tax levies produced less than 48 percent of their total revenues. State and federal payments made up most of the rest of their budgets.

10. The local governments that still stand most completely on their own feet, financially and figuratively speaking, are the cities, villages, and towns. Cities and villages in 1951 received only 8 percent of their total revenues from state, federal, and county sources. They got 58 percent of their revenues from the property tax and added enough from other locally controlled sources such as special assessments, licenses and permits, fines and forfeits, interest, rents, service charges, and other sources to make up over 90 percent of their revenues.

11. Aside from but related to the fiscal aspects of the state-local financial balance, there are many administrative problems in the field to which I here pay almost no attention. I do not minimize their importance. Given local governmental units of adequate and appropriate size, better assessment and equalization of property for taxation, effective budgeting, accounting, and expenditure controls, and various other administrative improvements, both state and local governments could be better financed. I suggest, however, that only a very thorough study (beyond anything that I had the time or energy to make) could bring out even the major problems in this area. Any such study would have to be made against a background of fiscal considerations such as I have tried to sketch out in Chapters 9 and 10.

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The Minnesota State Constitution

<u>State Constitutions Generally</u>. Each of the forty-eight states has a written constitution that was framed for it and adopted by its people or its leaders by some accepted procedure. Each state may in its own way and without anyone else's consent alter its constitution to suit itself, provided, of course, that it does not violate the United States Constitution and laws. Naturally every such written constitution is likely to contain provisions that are obsolete or not actually enforced. The actual constitution of a state is the written document as it is interpreted and carried out by the three branches of the state government, legislative, executive and judicial, and by the political and economic forces that actually dominate the state.

Through its constitution a state may not legally expand the powers of its government beyond the restrictions that are imposed on all states by the United States Constitution. That Constitution, as interpreted in judicial cases by the United States Supreme Court, and interpreted in daily practice by Congress and the President also, sets the outer limits of the powers of all the states. Of course, states will slip over the lines from time to time, but the means for bringing them back into line are generally sufficiently effective.

What a state can do, and what every state has done through its own constitution, besides setting up the machinery of state and local government and defining the rights of its people, is to set stricter limits upon its governmental authorities than the United States Constitution requires. In short, a state constitution is a set of additional limitations upon the powers of that state's governing authorities, and the longer a state constitution is, the more replete with limitations it is likely to be.

These limitations, furthermore, are such that, although they appealed to the dominant political and economic forces, and conformed to conditions and ideas current at the time when they were adopted, they may be out of date at any later time. Nevertheless, as state constitutions are hard to amend, and get steadily older (the average now being about seventy-five years), the restrictions they contain may seriously hamper the states when trying to modernize and improve their governments. There are always special groups and interests in a state that benefit from the continuance of old restrictions, and their opposition to any change coupled with the natural inertia of the people, provide plausible excuses for inaction on the part of the governing authorities. They can always plead, "But the constitution forbids the change that you desire," and that argument is effective with many persons.

This analysis of the role and nature of state constitutions has direct pertinence to state financial problems. If every state legislature in the Union were free from state constitutional restrictions to make the best kind of tax system possible in the light of presentday economic and financial conditions and within the broad limits set by the federal Constitution, the tax laws and other financial arrangements of the states should and probably would be very different from what they are. State constitutions as interpreted by the state supreme courts in different states stand in the way of numerous proposed tax reforms.

Taxation under the Minnesota Constitution to 1906. Like every other state constitution, that of Minnesota has imposed restrictions, for better or for worse, on the legislature's freedom of action in shaping the state's financial system to meet changing needs from time to time. I have already touched upon the efforts made to break through the early restrictions upon the state's taxing power so as to permit a diversification of taxes. As long as the old limitations remained the state had little choice but to use the property tax on a uniform cash valuation basis. For intergovernmental financial relations this was not a matter of great importance, because that was not a time of great governmental activity. It is when governmental functions and expenditures increase substantially that the financial relations of governments in a federal system become more numerous and urgent.

Power of Taxation under Wide Open Amendment. The constitutional amendment on the state's taxing power that was adopted in 1906 had the intended effect. It enabled the legislature to revise the state's tax system and to shift the tax burden more and more away from the property tax. Since it was adopted no important change in the state's tax laws has been held to be in violation of the state constitution.

The amendment left unchanged only one important field of taxation, namely, the taxation of railroads. As already mentioned, the early agreements with the railroad companies to induce them to build the roads included provisions by which they would pay a gross earnings tax in lieu of all other taxes. This was held by the courts to be a contract, unchangeable without the consent of the companies. The original tax rate was subject to change, however, and those who feared that the railroads might induce the legislature to reduce the rate or provide for exemption of the roads from taxation got the legislature to propose and the voters to adopt a constitutional amendment in 1871 (Article 4, section 32 (a)) whereby the repeal or amendment of the railroad gross earnings tax would require popular approval at the polls "by a majority of the electors of the state voting at the election." The present rate of the tax is 5 percent, and any change in this rate, down or up, will require a vote of the people equal to that required to approve a constitutional amendment. Thus, here is one part of the state's tax system that the legislature alone may not change, - but it is not unchangeable.

Revenue Spending and the Constitutional Dedication of Funds. The Minnesota legislature has, therefore, in general, a very broad power of taxation under both the United States and state constitutions. The same cannot be said for its power to apply the state revenues where the legislature may think they will do the most good. Like most other states Minnesota has state constitutional provisions that limit the spending of certain revenues to particular purposes or functions. In other words certain funds are earmarked for or dedicated to be spent on specified functions and no others.

Thus the state tax on motor vehicles is in lieu of all other taxes thereon and is dedicated entirely to expenditure on the trunk highway system (Minnesota Constitution, Article XVI, sections 2,3), and the tax on motor fuels used on the highways is dedicated two-thirds to expenditure on the trunk highway system and one-third to expenditure by the counties on the county roads (ibid., Article IX, section 5).

On the other hand the tax on the occupation of iron mining is divided by the state constitution (Article IX, section 1A) into three parts which are dedicated as follows: 50 percent to the State General Fund, 40 percent to the Permanent School Fund, and 10 percent to the Permanent University Fund. Thus only half of this tax may be expended for general current state expenses; the other half goes into the two permanent educational funds, so that only the interest therefrom (itself strictly dedicated) may be used for current educational expenditure. The annual earnings of the Permanent School Fund are distributed among the school districts by constitutional mandate (Article VIII, section 2, paragraph 1) in proportion to the number of pupils aged from five to twenty-one. The earnings of the Swamp Land Fund are similarly dedicated.

Clearly the public schools and the highways are the principal beneficiaries of revenues dedicated by the Minnesota state constitution, but they are not entirely alone. A part of the earnings of the Swamp Land Fund are dedicated to be appropriated to charitable institutions (Minnesota Constitution, Article VIII, section 2, paragraph 4) and the special taxes on aircraft and on fuel for aircraft (Article XIX, sections 3,4) are dedicated to airport purposes.

It should be added that in addition to revenues dedicated by the state constitution, the legislature itself has made certain dedications, such as the state income tax for public school purposes, and game and fish licenses for related conservation purposes. Such statutory dedications seem at times to be almost if not quite as binding on the legislature as constitutional dedications, because the influential groups that brought about the dedication in the first place stand ready to oppose any "diversion" of the funds to other uses.

Public Borrowing and Debt. The original provisions on the incurment of debt by the state are still a part of the Minnesota constitution (article 9, sections 5 to 8, inclusive). If a person reads them without knowing the state's history and certain state supreme court decisions he may well assume that the state debt may never exceed

$250,000, and that the state may never incur any debts for internal improvements. Neither of these statements is strictly true. The quarter of a million debt limit applies only to "extraordinary expenditures," and it has been held that a soldiers' bonus, a new capitol, and a new state prison are not extraordinary expenditures. Furthermore, while the phrase "internal improvements" was once held to include roads and bridges this limitation has been both circumvented and directly overcome. It was early decided by the state supreme court that this prohibition applied only to the state itself, and not to its political subdivisions like counties, towns, and cities. Thus the provision of roads and bridges merely had to be delegated to the local units of government. Later, also, the people approved first a road and bridge amendment and then a trunk highway amendment, both of which gave power to the state to raise money for highway work, and itself to construct and maintain the trunk highways. Thus the state was able to get into line very quickly when Congress began to make grants-in-aid for state highways.

Still later, also, the constitution was further amended to permit the state to engage in reforestation work and in the provision of airports and aviation facilities. In connection with the improvement and rounding out of the state forests, the state government was also authorized to exchange lands with the national government, which has also been engaged in rounding out its forests in Minnesota.

For all practical purposes, therefore, the Minnesota constitution at present does not interpose any important obstacles to the legislature's modifying the state tax system, or incurring debts, to provide important public improvements. Whenever it is necessary or desirable for the state to seek new sources of revenue or to cooperate with other governments, national, state, or local, on projects or programs that call for important financing, the state legislature has the power to go ahead. The principal restrictions on legislative control of state finances are to be found in the state constitutional provisions that dedicate certain revenues to specified functions or purposes and forbid any other use of such funds.

State Constitutional Provisions

Although in a constitutional sense the state legislature is a continuing body, in fact every biennial election brings sufficient changes in legislative membership and in outlook to make each session practically a different legislature. So, too, every legislature leaves behind it its deposit of new public policies. No current or future legislature can, therefore, be held to complete responsibility for making or not making changes that even the best informed elements in the public might think currently desirable in the financing of state and local government. Besides being under the push and pull of various conflicting contemporary pressures, every legislature is caught up in an intricate network and balance of interests resulting from countless obscure, possibly almost forgotten, but nonetheless influential past decisions in the field of public finance. These are embodied in various interdependent state laws, and in practices both state and local, that together provide the basis for current financial policies and procedures. It is not easy, although it might be legally possible, to make a clean break with the past and current laws and practices, and to enact at one time a whole new tax code and system of public finance.

Most important among the controlling factors that no legislature can change are the limitations on its powers embodied in the state constitution. Some of these restrictive provisions date back nearly a century, to 1857, when the constitutional convention framed the state constitution and the voters adopted it. Others were added later by constitutional amendments that were proposed by legislatures at different times and ratified by the voters soon afterwards. Each one of these changes was evidently thought to be a good thing at the time, but later generations facing new conditions have come to have serious doubts about the wisdom of some them.

In Chapter 5 I pointed out that the constitution under which Minnesota was admitted to the Union in 1858 practically limited the state and its local governments to the property tax as the one source of tax revenue. The so-called "wide-open" tax amendment of 1906 put an end to this restriction and made it possible for the legislature to establish a broader and more diversified system of taxation for both state and local purposes. Furthermore, while some other states have placed constitutional limits on the total rates of such important taxes as the property tax, - so-called "over-all tax limitations," - Minnesota has not done so.

The financial limitations under which the Minnesota legislature operates are of other kinds. First, there are three important constitutional provisions that designate certain state taxes as being in lieu of all other taxes on the property so taxed. These provisions are not alterable by ordinary legislation, but require the consent of a majority of the voters of the state voting at the election, either to approve a new law or to amend the constitution. This is the case with the 5 percent gross earnings tax on railroads (Constitution, Article 4, Section 32 (2) dating from 1871) and the tax on motor vehicles, which may be taxed by the state on a more onerous basis than other personal property, (Constitution, Article 16, Section 3); and the tax on air carriers' flight property (Constitution, Article 19, Section 4). In the case of motor vehicles, however, the legislature may authorize cities and villages to levy "wheelage taxes, so-called," and this the legislature has done, limiting the local wheelage tax to not over one-fifth of the state tax on any motor vehicle. In practice there has been very little use made of this "wheelage tax" power.

Second, the proceeds of several state taxes are dedicated by the constitution, in whole or in part, to the support of certain state functions. The taxes so dedicated by the constitution are:

(1) the tax on motor vehicles, which is assigned to expenditure on the State Trunk Highway System (Constitution, Article 16, Sections 1, 2, 3);

(2) the tax on gasoline and other motor fuels, used on the highways, which is dedicated two-thirds to the State Trunk Highway Fund, and one-third to the State Road and Bridge Fund for expenditure by the counties on approved county highways (Constitution, Article 9, Section 5);

(3) the tax on the occupation of mining iron and other ores in the state, an annual tax based on the value of the ores produced, which is to be divided and allocated

as follows:

(a) the proceeds of a tax equal to one percent of such value, to go into the veterans compensation (soldiers bonus) fund (Constitution, Article 9, Section 1B); and

(b) the balance of the revenue from the mining occupation tax to be divided so that 50 percent of that revenue goes into the State General Revenue Fund for current expenditure, while 40 percent goes into the Permanent School Fund of the state, and 10 percent goes into the Permanent University Fund (Constitution, Article 9, Section 1A). Only the interest earnings of these permanent funds may be expended currently.

Statutory Dedications and Understandings

The foregoing list of constitutional limitations upon the state legislature's financial powers is certainly formidable, but these restrictions do not stand alone. The legislature itself has proclaimed certain taxes to be in lieu of property taxes, has dedicated certain taxes and other revenues to being spent on specified functions, and has made other provisions that in effect, if not in strict law, help to tie the hands of current and future legislatures. The political understandings between the legislators and the citizen organizations that insisted upon these dedications seem almost as binding as constitutional provisions.

To match the constitutional "in lieu" provisions covering the state taxes on motor vehicles, on air carriers' flight property, and on railroad gross earnings, there are legislative provisions to the same effect to protect against additional taxation on their property the following types of companies that have paid gross earnings taxes in lieu of property taxes:

telegraph companies

telephone companies

freight lines

express companies

Corresponding to the constitutional provisions that dedicate motor vehicle and gasoline taxes to highway uses, and that allocate mining occupation taxes largely to veterans bonuses, and veterans services, and to the permanent school and university funds, are statutory provisions that dedicate the state income tax (both individual and corporate) to state support for primary and secondary schools, and the revenue from hunting, fishing, and similar licenses to state conservation purposes. These dedications, although merely in statutory form, are backed up by so much public opinion as to their rightness, both inside and outside the legislature, and by such large and powerful citizen organizations, that it is not easy for the legislators to bring themselves to making changes that would divert any of the funds involved to other public uses, even when the need seems very great.

Considerations For and Against Dedicated Revenues. While the special interest groups that have achieved the dedication of particular revenues to the functions that they favor can present cogent arguments for their special examples of dedication, students of public finance and the proponents of more flexible state budgeting and fiscal policy are in general opposed to the dedication or "earmarking" of specific revenues to particular public services. A recent nationwide survey of this aspect of state finances summarizes the arguments in opposition as follows:

> "Earmarking of revenues may be desirable in isolated cases where those who receive the benefits must bear the costs, but it is subject generally to the following major criticisms:
>
> "1. Earmarking substitutes an indefinite yield of a single tax for a specific appropriation from general revenues based upon current needs.
>
> "2. Earmarking gives excess revenues to some functions and starves others.
>
> "3. Earmarking destroys the flexibility of the revenue structure, making it difficult for the legislature to adjust finances to meet changing conditions.
>
> "4. Earmarking infringes on the policy-making powers of legislative bodies by removing governmental activities from periodic review and control."

This is a good summary of the usual arguments against the dedication of particular revenues to specific public services, and much of it I accept; but it is too condensed and too unqualified in its expressions to tell the full story. There are various degrees and types of earmarking of revenues, as is clearly revealed by the table published in the same report of the earmarked state taxes in Minnesota. For example, the table lists the state property tax as one that is practically all dedicated to state debt service, teachers' and state employees' retirement funds, the retirement of state rural credit obligations, and the retirement of veterans' bonus bonds. In fact, of course, the state legislature leaves the property tax almost entirely to the local governments, thereby achieving a sort of separation of sources. It levies property taxes, as a rule, only in the relatively small amounts needed for the specific purposes named in the table, letting any small surplus go to general revenue, but reserves the right at any time to levy additonal amounts (as it has done from time to time) for general state revenues. The table also lists the state tobacco tax, death and gift taxes, and bank excise tax as being partly or wholly dedicated. The so-called earmarked portion (100 percent in the case of the bank excise tax) is in each case turned over to local governments for general local purposes. These are examples not strictly of earmarked taxes, but of state-collected taxes that are shared with the local governments. The special and temporary arrangements for raising money for the veterans' bonuses by adding something to the rates of several different taxes are also not clear cases of earmarked or dedicated revenues.

This still leaves, however, such major taxes as the income taxes, the highway-user taxes (motor fuels, car licenses, and operators' licenses), and a large portion of the revenue from the occupation tax on iron mining as taxes whose proceeds are dedicated to particular public services, and these in 1954 amounted to over 61 percent of the state's tax revenues.

Here, however, certain other distinctions need to be made. First, when a tax is dedicated to expenditure on a particular function, as gas taxes and motor vehicle licenses are dedicated to highway uses, if the reasonably predictable yield of the tax in the long run is considerably less than the reasonably predictable needs of the service, the restriction thereby imposed upon legislative freedom of budgeting may not be serious. Second, what appears like, and in fact may be, a tax dedication may at the same time be a tax sharing between the state and its local units, and the tax-sharing aspect may be as important as the tax-dedication aspect. Thus the dedication of one-third of the gasoline tax to county highways and two-thirds to state trunk highways is a case of tax-sharing, particularly in view of the fact that the entire proceeds of the gasoline tax had previously been earmarked for the state trunk highways. Similarly the statutory dedication of the income tax revenue to the primary and secondary schools was also a recognition of the financial needs of the local school districts.

When the legislature has full control over the rates of any dedicated tax, there is no need for it to permit the revenue from the tax to exceed the needs of the service for which it is earmarked. The difficulty is, however, that if the entire revenue of any tax is dedicated by the constitution to a particular service, a later legislature is unable to use the tax in question for general revenue purposes even if the need is great and the legislature feels that the tax in question is one of the most suitable for supplying the state with general revenue.

In its December, 1954, report, Minnesota's Tax Structure, the Minnesota Tax Study Commission found that as of June 30, 1953, "79 percent of the total income of the state was subject to some form of restriction and only 21 percent was unrestricted." Its conclusion was stated as follows:

> "It is not generally considered good fiscal policy for a state to operate with such a high proportion of restricted revenues, but it is the considered judgement of this Commission that, aside from its conclusion regarding the trust funds set forth elsewhere, there would be no material improvement in the Minnesota tax structure by the elimination of any of these restrictions, and the expenditures of the state might be greater than they are if there were no such restrictions."

The Commission indicated some doubt as to the wisdom of the state's continuing to place 50 percent of the occupation tax on iron ore in the Permanent School Fund (40 percent) and Permanent University Fund (10 percent).