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Chapter 2

FEDERAL GRANTS, UNEMPLOYMENT, AND STATE-LOCAL FINANCE, 1920-1949

The expansion of federal grants during the 1930's was merely one striking manifestation of the expansion of the sphere of activity of the federal government. Grants grew twenty-four fold, 1929-39; total federal expenditure grew two and a third times. Grants were 3 percent of federal expenditure in 1929 and more than 32 percent in 1939. A connection exists between the growth of grants and the type of federal expenditure that expanded most rapidly. Whereas in 1929 federal expenditure for social welfare functions was insignificant, in 1939 it was \$3,946 million of which nearly 60 percent was in the form of grants; in 1949 it was \$2,259 million of which 82 percent consisted of grants.¹ The force behind this growth in social welfare expenditure in the 1930's was a shift in philosophy which may have originated and certainly was stimulated by the impact of a depression very severe in both amplitude and duration. And when after 1932 economic conditions began to improve, the revival did not suffice to raise gross national product (in constant prices) above the level of 1929 until 1937. Moreover, while civilian employment grew after 1933 (with a lapse in 1938), unemployment remained large and was 9,480,000 in 1939; it was 1,550,000 in 1929. Continuance of extensive unemployment led the federal government to expand its own direct expenditure and, through grants, to encourage and assist state and local governments in the performance of their functions. This grant program was set in motion also because the fiscal ability of many state and local governments seemed to be impaired by the severe depression.

After analyzing the relation between federal grants and unemployment, especially since 1933, we present the contribution of federal grants to state-local budgets, then examine the impact of prosperity and depression upon state-local financing.

¹A parallel functional classification of federal expenditures and grants is available only from 1939. The relevant figures for the above calculations are as follows:

Federal Expenditures (millions)	FISCAL YEARS		
	1929	1939	1949
Total	\$3,848	\$8,966	\$40,057
Social welfare	n.a.	3,946	2,259
Grants	119	2,909	1,855

n.a: not available.

1 FEDERAL GRANTS AND UNEMPLOYMENT

Some countercyclical movement of grants is apparent both before and after 1929 (Table 4 and Chart 1). But when unemployment rose eightfold, 1929-32, federal expenditures for grants merely doubled. In 1933-34 they increased markedly and, except for a small break in 1938, continued to increase until 1939, despite a decrease in unemployment from 1933 to 1937. After 1939 grants and unemployment went down together until the end of the war, although grants lagged and did not decrease relatively as much as unemployment. As tentative generalizations it appears that: (a) grant expenditure expanded rapidly 1933-39 and contracted rapidly 1939-46, although the contraction did not proceed to the pre-1933 level; (b) grants have tended to move contracyclically since 1919 with some lag; in the great depression after 1929 they did not increase substantially until unemployment was at its peak.

This over-all picture should be refined by examining certain grants. As pointed out in Chapter 1, grants for social welfare, health and security and for transportation and communication are much the most important after 1933 in terms of amount. They are also responsible for the rough correspondence between variations in over-all federal expenditure for grants and in unemployment (Chart 1).

Each contains several grants of unequal significance and each contains emergency grants started during the 1930's and later dropped. The emergency grants for CWA, PWA, FERA, WPA dominated the grant expenditure for social welfare, health and security 1934-41, then tailed off sharply. CWA provided chiefly work relief with some public works, PWA provided public works, FERA provided chiefly direct relief with some work relief, WPA provided work relief. Only a few of the services for which these emergency agencies paid grants were carried over into the regular grant programs. Direct relief is now a responsibility of state and local governments, except that the federal government offers grants for categorical assistance (old age assistance, aid to the blind, and to dependent children). The regular grants for social welfare, health, and security have been chiefly for public assistance, especially old age assistance. In recent years the public assistance grants have comprised over 80 percent of total grant expenditure under this heading. Services similar to those of WPA are not now provided on a significant scale by any level of government. Those of PWA are now provided by state and local governments through public construction with federal grants in the case of highways, airports, housing, and hospitals.

In subsequent chapters attention will be focused upon two broad areas which, in this preliminary analysis of grants, appear to be of special impor-

Table 4: Federal Grants and Unemployment, 1919-1949

	Grants (\$000,000)			Unemployment (000,000) Av. for:			
	Fiscal Years*	Calendar Years	Fiscal Years*	Grants (\$000,000) Fiscal Years*	Unemployment (000,000) Calendar Years	Av. for: Fiscal Years*	
	(1)	(2)	(3)	(1)	(2)	(3)	(4)
1919	95	.91		1934	1,848	11.37	10.02
1920	76	2.38		1935	2,277	10.54	9.88
1921	104	6.13		1936	2,318	8.86	8.38
1922	105	4.54		1937	2,669	7.47	6.60
1923	86	2.36		1938	2,180	10.05	8.27
1924	95	3.55		1939	2,909	8.91	9.44
1925	113	2.27		1940	2,401	7.48	8.40
1926	108	1.85		1941	2,089	5.01	5.65
1927	102	2.92		1942	1,826		7.10
1928	102	3.07		1943	1,293		4.00
1929	119	1.56		1944	1,009		1.56
1930	114	4.81	1.12	1945	910		.83
1931	195	8.46	5.05	1946	901		.62
1932	228	12.43	9.22	1947	1,678		1.96
1933	201	13.11	12.52	1948	1,629		2.21
				1949	1,855		2.07
							2.55

COLUMN

- 1 Table 1.
- 2 National Bureau of Economic Research.
- 3 National Industrial Conference Board, *Economic Almanac for 1945-46*, p. 39. Calculated from monthly figures.
- 4 Bureau of Census: 1940-46, Current Population Reports (Series P-50, #2). 1947-49, Monthly issues of Current Population Reports (Series P-57).

* Ending June 30.

tance: public assistance and public construction. The problem to be considered is their cyclical aspect.

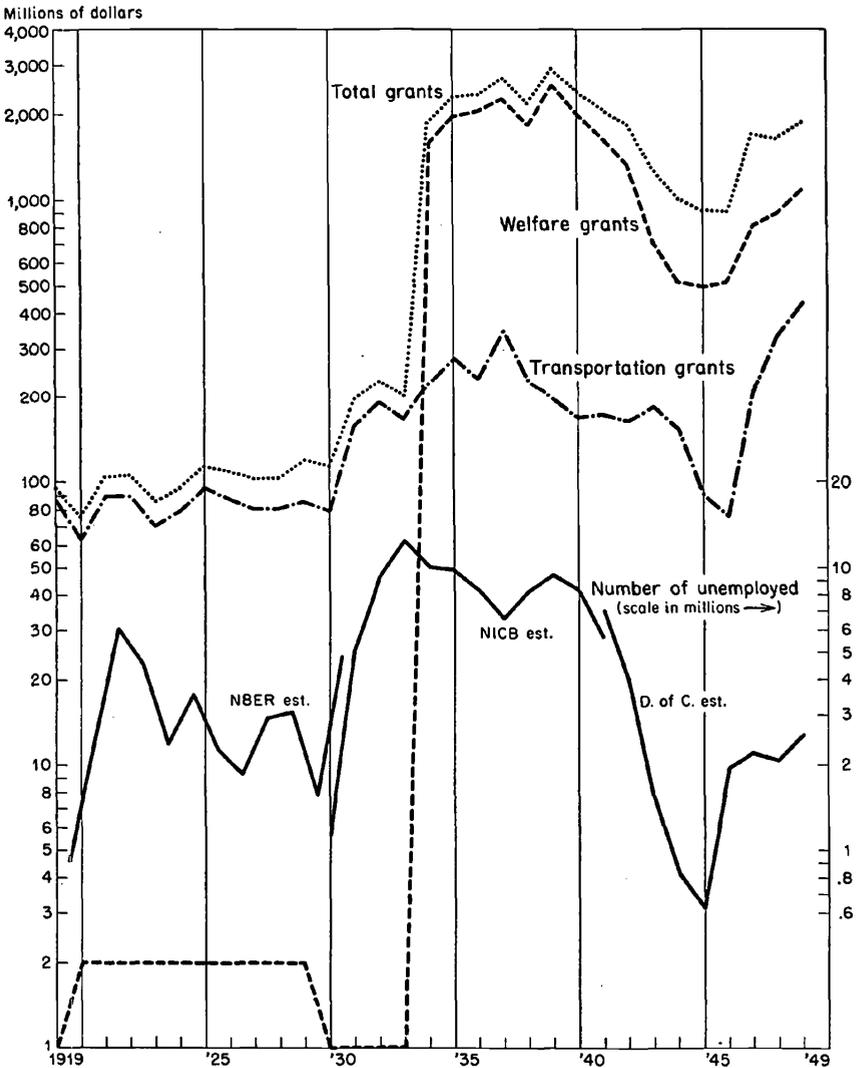
2 CONTRIBUTION OF FEDERAL GRANTS TO STATE-LOCAL BUDGETS

The direct over-all effect of federal grants on state and local budgets can be seen in Table 5 and Chart 2. During the 1920's the grants as a percentage of state and local expenditures tended slightly downward. After 1929, however, the percentages grew at first slowly, then rapidly. For 1934-42 grants were 20-40 percent of state-local expenditures. During the war they declined, reaching a low of 9 percent in 1946. In view of recent Congressional extension of grant programs the trend may well be upward and, in the event of depression, sharply upward.

Unfortunately, the figures of federal grants used in Table 5 cannot be divided into those to state and local governments. Before 1933, of course, federal grants went to state, not to local governments. Thereafter grants to local governments grew rapidly until 1941, then declined sharply as most emergency programs were terminated.² Since the war the new federal

² Figures on federal grants prepared by the Bureau of the Census are divided into state and local, but they are available for only a few years and are not consistent with the figures used here, which were prepared by the Bureau of the Budget. As explained in the Appendix to Chapter 1, the big discrepancy is that the Budget Bureau figures include WPA expenditures, which in fiscal 1942 amounted to \$874,000,000. The

Chart 1
Federal Grants and Unemployment, 1919-1949



Source: Tables 1 and 4

Ratio scales

Census figures below miss 1934-40 when federal grants to local governments were large.

	1932	1942	1945	1946	1947	1948
Federal Aid (\$000,000) Received by						
State & local governments	238	854	788	774	n.a.	n.a.
State governments	228	809	759	767	1,157	1,439
Local governments	10	45	29	7	n.a.	n.a.

Source: Bureau of the Census, *Historical Review of State and Local Government Finances* (State and Local Government Special Studies, Series G-SS, No. 25, 1948).

n.a.: not available.

Table 5: Federal Grants and State and Local Expenditures, 1920-1948

	Federal Grants		Expenditures			Net State and Local Expenditures	Grants as % of Expenditures
	Total (1)	Excl. WPA (2)	State ^a (3)	Local ^b (4)	Total ^b (5)	(5) - (2) (6)	(1) ÷ (5) (7)
	(m i l l i o n s		o f d o l l a r s)				
1920	76	76	900	3,300	3,800	3,724	2.0
1921	104	104	1,100	3,700	4,300	4,196	2.4
1922	105	105	1,200	4,100	4,700	4,595	2.2
1923	86	86	1,200	4,600	5,100	5,014	1.7
1924	96	96	1,400	5,100	5,800	5,704	1.7
1925	114	114	1,500	5,600	6,400	6,286	1.8
1926	108	108	1,500	6,200	6,900	6,792	1.6
1927	102	102	1,600	6,600	7,400	7,298	1.4
1928	106	106	1,800	7,000	8,000	7,894	1.3
1929	119	119	1,900	7,300	8,300	8,181	1.4
1930	113	113	2,200	7,200	8,500	8,387	1.3
1931	195	195	2,300	7,100	8,400	8,205	2.3
1932	228	228	2,300	6,400	7,600	7,372	3.0
1933	201	201	2,000	5,200	6,100	5,899	3.3
1934	1,848	1,848	2,100	5,400	6,300	4,452	29.3
1935	2,277	2,277	2,200	5,500	6,400	4,123	35.6
1936	2,319	1,055	2,800	5,500	6,900	5,845	33.6
1937	2,669	847	2,900	5,600	7,000	6,153	38.1
1938	2,180	758	3,300	5,600	7,200	6,442	30.3
1939	2,909	980	3,800	5,600	7,400	6,602	39.3
1940	2,401	1,001	3,600	5,600	7,500	6,499	32.0
1941	2,089	927	4,200	5,600	8,000	7,073	26.1
1942	1,827	953	4,400	6,300	8,900	8,447	20.5
1943	1,293	1,028	4,300	6,500	9,000	7,972	14.4
1944	1,009	1,003	4,400	6,500	9,100	8,097	11.1
1945	910	905	4,500	6,800	9,500	8,595	9.6
1946	901	901	5,200	7,900	10,000	9,099	9.0
1947	1,678	1,675	7,000	9,800	13,500	11,825	12.4
1948	1,629	1,629	9,100	11,800	15,800	14,171	10.3

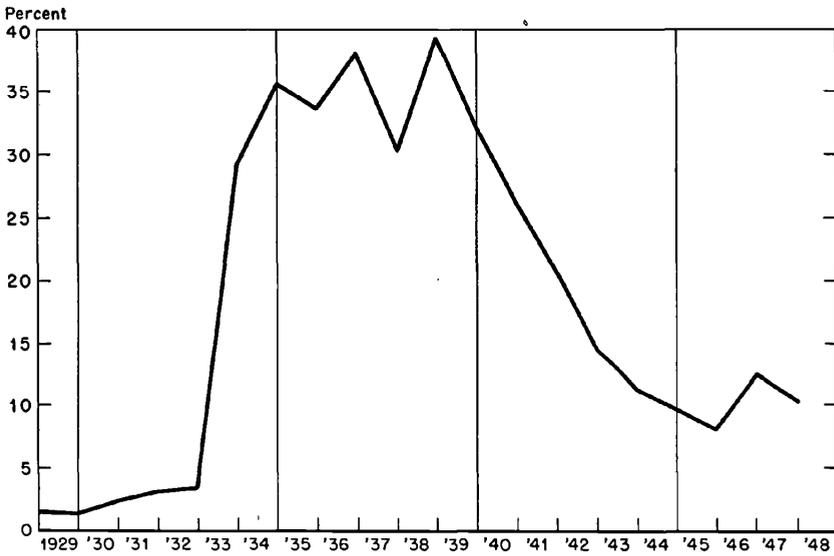
Grant figures for fiscal years ending June 30, recording the time of payment by the federal government, are from Table 1.

State-local expenditures, 1920-41: *Postwar Economic Studies, No. 3* (1945), Public Finance and Full Employment (Board of Governors of the Federal Reserve System), p. 115; 1942-48: unpublished studies by Elinor Harris of the Board of Governors of the Federal Reserve System. The figures, especially for local governments, are imperfect, merely reflecting trends. In *Postwar Economic Studies*, pp. 112 and 114, the sources are specified, as well as the rough method of estimating annual totals. State and local expenditures are listed as if they were for calendar years, but no over-all yearly figures of state and local expenditures can be on a completely accurate annual basis because fiscal years are not uniform. Most state governments and most school districts "operate on a June 30 fiscal year basis; other local governments vary widely with June 30 and December 31 the most common closing dates. As recently as 1945, only 7 of the 48 states had a uniform fiscal year applicable to the State government and all local governments" (Bureau of the Census, *Revised Summary of State and Local Government Finances in 1942*, Washington, 1948, p. 3). Moreover, federal expenditure for grants is quite often a reimbursement for state-local expenditures already made. In view of this situation the percentages in this table are calculated as if grants and expenditures were comparable year by year.

^a Includes general expenditures for operation, capital outlay, aid paid to other governments, interest, contributions to enterprises. Excludes provision for debt retirement and contributions to unemployment trust funds.

^b State aid to local governments is deducted to avoid duplication.

Chart 2

Federal Grants as Percentage of State and Local Expenditures
1929 - 1948

Source: Table 5.

grants-in-aid of hospital, airport, and housing construction have gone to local as well as state governments, and these may become important. But so far, except in 1934-41, the important *direct* impact of federal grants has been on state budgets. Their *indirect* effect upon local budgets has, however, been significant because they facilitated state assumption of local functions and the growth of state grants to local governments.

3 STATE-LOCAL FINANCING IN PROSPERITY AND DEPRESSION

The general proposition that local fiscal capacity varies directly with fluctuations in business activity, and especially that it is adversely affected by severe depression, is supported by examination of series showing expenditures, revenue, and borrowing by local governments after 1929. In less degree the same proposition applies to state fiscal capacity. The effect of mild depressions, on the other hand, is not readily discernible. For the 1920's the explanation may well be that an ample margin of fiscal capacity existed so that the moderate pressure of adverse economic circumstances was concealed.

EXPENDITURE

After 1929 *total* state and local expenditures at first slackened, turned down after 1930, then rose gradually after 1933 (Table 5). This over-all result hides the different behavior of the two components. State expenditures increased to 1931 or 1932, whereas local declined after 1929; by 1933 local expenditures had fallen sharply and, during the remainder of the 1930's made only a small recovery, while state expenditures, after a decline in 1932-33, rose until 1943.

The Federal Reserve Board figures on state and local expenditures, given in Table 5, include federal grants except WPA. If grants are deducted, the apparent upturn in state and local expenditures after 1933 seems to be due to grants, and the figures, net of grants, continued to decline until 1936. The decline was, in fact, steeper than these figures show, because non-federal expenditure of WPA was for state-local functions and lifted burdens from state-local budgets.

Some effects of the depression after 1929 on particular types of expenditure by state and local governments can be indicated. The biggest decrease was for new construction (Table 6 and Chart 3). State and local expenditure for it from their own funds declined 67 percent between 1930 and 1935, with a sharper decline in the local than in the state share (Table 7). Over-all net expenditure for purposes other than construction declined only 46 percent, and by 1938 had nearly recovered to its pre-depression level because of the rapid growth of welfare expenditure, as will be shown below.

More precise analysis of the effects of depression on types of state and local expenditure is hindered by inadequacies in the data. Table 8, which gives expenditure for the operation of cities with populations of 100,000 or more, shows that, for 6 out of 7 important functions, expenditure was smaller in 1933 than in 1931, and that for 5 functions it did not reach the 1931 level until after 1937. The exception, public welfare, reflects the influence of depression. The figures must be interpreted with reference to changes in the value of money. The wholesale price index fell 10 percent from 1931 to 1933, then rose. On the other hand, the growth of the cities brought a need for additional expenditure for schools, sanitation, health, etc. Moreover, the figures on city expenditures include federal and state grants, particularly for public welfare and schools.³ Thus the evidence is

³ Highways also, but not for operation. The grants received by cities with populations of 100,000 or more from other governments, 1927-40, were as follows, in millions of dollars:

1927	94	1933	273	1936	373	1939	572
1931	150	1934	330	1937	503	1940	540
1932	181	1935	420	1938	552		

Historical Review of State and Local Government Finances, p. 22.

Table 6

Net State and Local Expenditures, 1920-1948

	Total		Construction		Other	
	\$000,000	1927:100	\$000,000	1927:100	\$000,000	1927:100
1920	3,724	51	1,025	46	2,699	53
1921	4,196	57	1,364	61	2,832	56
1922	4,595	63	1,506	68	3,089	61
1923	5,014	69	1,437	64	3,577	71
1924	5,704	78	1,690	76	3,714	73
1925	6,286	86	1,949	87	4,337	86
1926	6,792	93	1,970	88	4,822	95
1927	7,298	100	2,230	100	5,068	100
1928	7,894	108	2,278	102	5,616	111
1929	8,181	112	2,251	101	5,930	117
1930	8,387	115	2,545	114	6,042	119
1931	8,205	112	2,153	97	6,052	119
1932	7,372	101	1,418	64	5,954	117
1933	5,899	81	846	38	5,053	100
1934	4,452	61	864	39	3,588	71
1935	4,123	56	852	38	3,271	65
1936	5,845	80	1,153	52	4,692	93
1937	6,153	84	1,203	54	4,950	98
1938	6,442	88	1,383	62	5,059	100
1939	6,602	90	1,673	75	4,929	97
1940	6,499	89	1,500	67	4,999	99
1941	7,073	97	1,303	58	5,870	116
1942	8,447	116	872	39	7,575	149
1943	7,972	109	445	20	7,527	149
1944	8,097	111	442	20	7,655	151
1945	8,595	118	562	25	8,033	159
1946	9,099	124	1,248	56	7,851	155
1947	11,825	162	2,228	100	9,597	189
1948	14,171	194	3,301	148	10,870	214

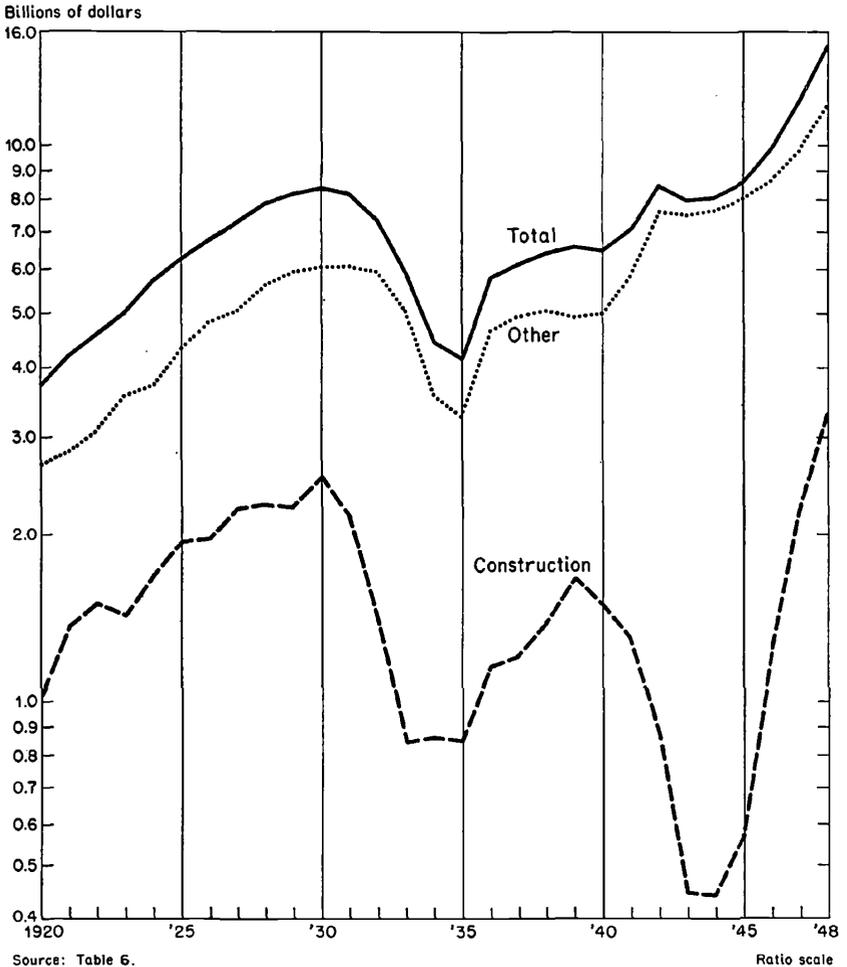
Total net expenditures from Table 5; construction expenditures, exclusive of federal grants, from Table 30; other expenditure is the remainder.

that city governments were forced by depression to increase welfare expenditure and to cut back on operating expenditure for many functions.

The impact of depression on state functional expenditure for operation, including federal and local grants, was less perceptible (Table 9 and Chart 4). While federal (and local) grants cannot be allocated accurately to specific functions, the most important operational expenditure affected by them was public welfare which grew remarkably. Quite apart from grants, state expenditure held up because of assumption of duties that had hitherto been local. That the depression had some influence in holding down expenditure is indicated, however, by the decline in the rate of growth of expenditure other than for public welfare (Chart 4). In 1919-27 expenditure, excluding public welfare, grew 108 percent, or at an annual rate of 13½ percent. In the next decade, 1928-37, it grew 46 percent, or at an annual rate of 4¼ percent. Moreover, capital outlay by state governments declined 1932-38.

Chart 3

Net State and Local Expenditures, 1920-1948



REVENUE

The depression affected the state and local tax yield, which fell from \$7.1 billion in 1930 to \$5.9 billion in 1933 (Table 10), and also the type of taxes levied by state governments. Difficulties in borrowing arising from weakened credit, legal and constitutional limitations, and inhibitions against borrowing in depression, caused a shift notably to sales taxes. In 1929 state governments received \$431 million from them, in 1935, \$1,050 million, and in 1939, \$1,483 million. The shift accelerated after 1933 (Table 10). This expansion of sales taxes enabled the states to expand

Table 7

Capital Outlay, 1920-1945 (millions of dollars)

	State Govern- ments	145 Cities	Cities over 100,000		State Govern- ments	145 Cities	Cities over 100,000
1920	n.a.	376 ^a	n.a.	1933	n.a.	282 ^b	182
1921	n.a.	n.a.	n.a.	1934	n.a.	331 ^b	226
1922	n.a.	541	n.a.	1935	n.a.	387 ^b	260
1923	352	570	413	1936	n.a.	480 ^b	295
1924	n.a.	718	n.a.	1937	712	586 ^b	373
1925	n.a.	873	n.a.	1938	695	n.a.	377
1926	n.a.	891	n.a.	1939	759	n.a.	388
1927	505	1,020	753	1940	725	n.a.	350
1928	n.a.	990	n.a.	1941	676	n.a.	n.a.
1929	n.a.	936	n.a.	1942	615	n.a.	n.a.
1930	n.a.	1,072	n.a.	1943	477	n.a.	n.a.
1931	n.a.	911	628	1944	325	n.a.	n.a.
1932	775	577 ^b	387	1945	267	n.a.	n.a.

Source: *Historical Review of State and Local Government Finances*, pp. 20, 23; Harold Wolkind, *Fluctuations in Capital Outlays of Municipalities*, Bureau of Foreign and Domestic Commerce, *Economic Series No. 10* (1941), pp. 8, 11.

n.a.: not available.

^a Estimated on basis of 107 cities.

^b Estimated on basis of 83 cities.

^c Including overlying local governments.

their total tax collections. Local governments, restricted mainly to property taxes, had greater difficulties. Attempts to maintain or increase assessments and tax rates caused more tax delinquency. Delinquency in 150 cities with populations over 50,000 rose from 10.15 percent in 1930 to 26.35 percent in 1933, and did not fall below the 1930 percentage until 1939 (Table 11). Arthur D. Gayer points out that "during 1932 and 1933 tax delinquencies increased to such an extent that many cities were operating with approximately three-quarters of their current tax levies".⁴ States that depended upon property taxation had similar difficulties; moreover, they had to assume additional responsibilities as local governments got into financial difficulties.⁵

BORROWING

Borrowing by state and local governments was affected by the depression in at least three ways: amount, type, and rate of interest. Total interest-bearing debt grew almost \$1 billion yearly during the 1920's (Table 12). In 1930-31 borrowing held up, then fell abruptly. A division of the figures into state and local after 1929 shows that while state net borrowing con-

⁴ *Public Works in Prosperity and Depression* (NBER, 1935), p. 316.

⁵ *Ibid.*, p. 321.

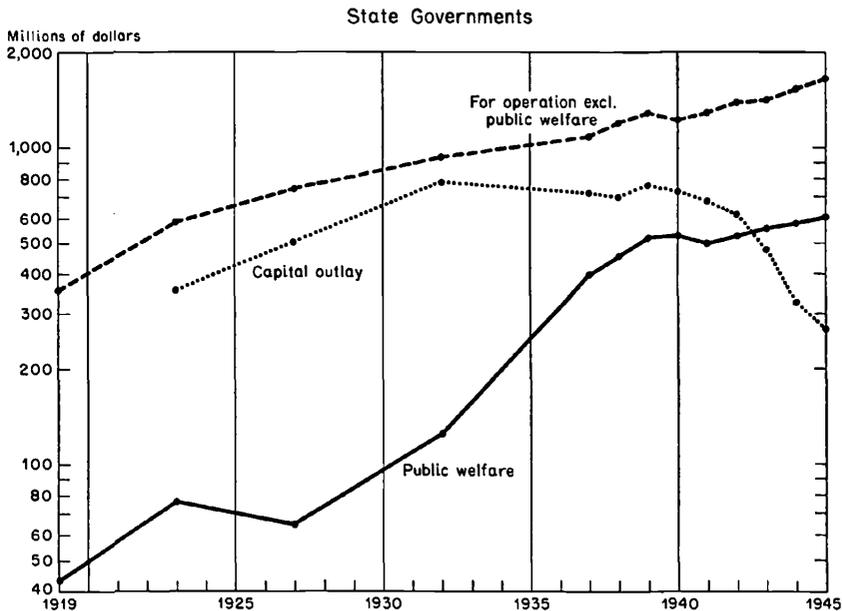
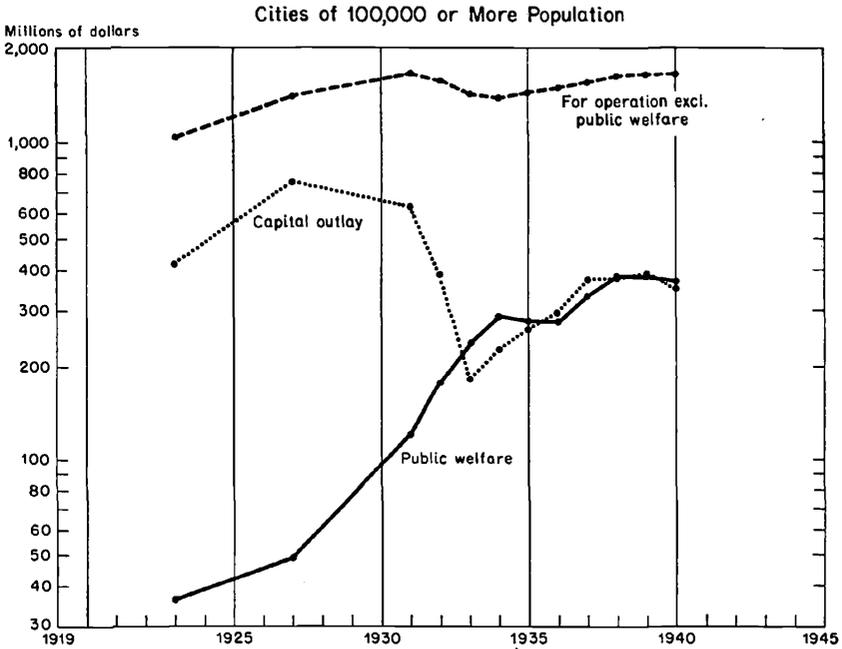
Table 8
Expenditure for Operation, by Function, Cities with Populations of 100,000 or More, 1923-1940

Year	Public Safety	Sanitation	M I L L I O N S				Recreation D O L L A R S	Public Welfare	Other	Total excl. Public Welfare
			Health	Hospitals	Schools					
1923	218	84	14	43	394	37	36	243	1,033	
1927	291	116	25	53	519	52	49	324	1,429	
1931	346	125	30	81	632	67	120	379	1,780	
1932	325	118	28	80	607	63	177	343	1,741	
1933	295	100	26	75	542	60	238	316	1,652	
1934	295	92	28	79	527	48	288	309	1,666	
1935	304	94	25	83	546	48	278	337	1,715	
1936	327	98	17	95	572	52	277	324	1,762	
1937	330	100	28	98	596	58	332	331	1,873	
1938	347	107	30	105	625	65	381	344	2,004	
1939	345	108	31	106	630	66	384	355	2,025	
1940	351	108	31	111	631	66	367	349	2,013	
R E L A T I V E S 1 9 2 7 : 1 0 0										
1923	75	72	56	81	76	71	74	75	75	75
1927	100	100	100	100	100	100	100	100	100	100
1931	119	108	120	153	122	129	245	117	120	125
1932	111	102	112	151	117	121	361	106	113	121
1933	101	86	104	123	104	115	486	94	102	109
1934	101	79	112	149	102	92	588	95	117	117
1935	104	81	100	157	105	92	567	104	104	120
1936	112	84	68	179	110	100	565	100	108	123
1937	113	86	112	185	111	112	678	102	112	131
1938	119	92	120	198	120	125	778	106	118	140
1939	112	93	124	200	121	127	784	110	119	141
1940	121	93	124	210	121	127	749	108	119	140

Source: *Historical Review of State and Local Government Finances*, p. 24. Includes city corporations and portions of overlying nances, p. 24. Includes city corporations and portions of overlying local governments. Figures for 1924-26, 1928-30, and after 1940 are not available.

Chart 4

Selected Expenditures of State and City Governments, 1919-1945



Source: Tables 7, 8, and 9.

Ratio scales

tinued until 1935, municipal continued only to 1933, and that state debt became a larger portion of the total up to and including 1940. Thereafter during the war both state and local debt decreased, the former relatively more.

Table 9

Selected Functional Expenditures for Operation of State Governments, 1919-1945

	Public Safety	Sanita- tion and Health	Hos- pitals	Schools	High- ways	Public Welfare	Other	Total excl. Public Welfare	Total
M I L L I O N S O F D O L L A R S									
1919	34	9	67	64	38	43	144	356	399
1923	53	14	102	127	90	76	194	580	656
1927	64	18	124	155	146	64	233	740	804
1932	87	26	141	188	214	124	277	933	1,057
1937	102	34	183	191	248	391	325	1,083	1,474
1938	118	43	192	210	257	451	376	1,198	1,649
1939	121	47	198	214	276	519	428	1,284	1,803
1940	120	46	204	205	243	523	403	1,222	1,745
1941	110	51	210	223	247	499	358	1,291	1,790
1942	123	54	233	275	260	526	363	1,390	1,916
1943	134	57	243	305	244	556	365	1,402	1,968
1944	131	69	267	354	264	578	381	1,524	2,102
1945	131	95	287	354	308	605	413	1,649	2,254
R E L A T I V E S 1 9 2 7 : 1 0 0									
1919	53	50	47	34	18	35	52	48	38
1923	83	78	82	82	61	119	83	78	82
1927	100	100	100	100	100	100	100	100	100
1932	135	144	114	121	147	194	119	126	131
1937	159	189	148	123	170	611	139	147	183
1938	184	239	155	135	176	704	162	162	205
1939	189	261	160	138	189	811	184	173	224
1940	187	256	165	137	166	817	173	165	217
1941	172	284	169	144	169	780	154	174	222
1942	192	300	188	172	178	824	156	188	239
1943	209	317	196	197	167	870	157	189	245
1944	204	384	216	238	181	903	163	206	262
1945	204	527	232	238	211	945	177	223	280

Source: *Historical Review of State and Local Government Finances*, p. 21. Figures for 1920-22, 1924-26, and 1928-36, except 1932, are not available. Grants from other governments are included as follows (pp. 12-9):

	Mil. \$		Mil. \$		Mil. \$		Mil. \$
1927	113	1938	654	1941	741	1944	829
1932	228	1939	683	1942	809	1945	759
1937	585	1940	705	1943	833	1946	767

As has been emphasized, these figures are not comparable with those of Table 1.

Table 10

State and Local Tax Collections, and State Sales Tax Collections, 1919-1945

	Total Tax Collections (\$000,000)			States Sales Tax Collections	
	Local	State*	Total	\$000,000	% of Total
1919	2,395	594	2,989	1	0.2
1922	3,157	947	4,104	13	1.4
1925	3,811	1,305	5,116	148	11.3
1928	4,641	1,756	6,397	305	17.1
1929	4,819	1,951	6,770	431	22.1
1930	5,018	2,108	7,126	508	24.1
1931	4,805	2,042	6,847	563	27.6
1932	4,657	1,861	6,518	543	29.2
1933	4,210	1,724	5,934	562	32.6
1934	4,160	1,979	6,139	831	42.0
1935	4,299	2,217	6,516	1,050	47.4
1936	4,290	2,618	6,908	1,232	47.0
1937	4,370	3,089	7,459	1,435	46.4
1938	4,344	3,146	7,490	1,454	46.2
1939	4,300	3,109	7,409	1,483	47.7
1940	4,365	3,343	7,708	1,643	49.1
1941	n.a.	3,606	n.a.	2,098	58.2
1942	4,597	3,939	8,536	2,220	56.9
1943	n.a.	3,961	n.a.	2,207	55.7
1944	n.a.	4,105	n.a.	2,156	52.8
1945	4,957	4,349	9,306	2,278	52.8
1946	5,283	4,980	10,263	2,806	57.0

Source: 78th Congress, 1st Session, *Senate Document 69*, Federal State and Local Government Fiscal Relations, pp. 342-7 and 349, for 1919-40; other years from *Historical Review of State and Local Government Finances and Summary of State Government Finances in 1949* (Bureau of the Census, 1950).

* Excluding unemployment compensation taxes.

n.a.: not available.

Table 11

Tax-Delinquency Trend, 1930-1946

(median percentages of year-end tax delinquency in 150 cities with populations over 50,000)

	%		%		%		%
1930	10.15	1934	23.05	1938	10.70	1942	6.00
1931	14.60	1935	18.00	1939	9.25	1943	4.70
1932	19.95	1936	13.90	1940	8.70	1944	3.90
1933	26.35	1937	11.30	1941	6.80	1945	3.30
						1946	3.20

Source: F. L. Bird, *Trend of Tax Delinquency 1930-1946 in Cities of over 50,000 Population* (Dun and Bradstreet, 1947), p. 10.

Table 12

Interest-bearing Debt of State and Local Governments outstanding June 30, 1919-1949 (billions of dollars)

	Amount Outstanding			Increase or Decrease		
	State	Local	Total	State	Local	Total
1919	n.a.	n.a.	7.1			
1920	n.a.	n.a.	7.8	n.a.	n.a.	+0.7
1921	n.a.	n.a.	8.5	n.a.	n.a.	+0.7
1922	n.a.	n.a.	9.9	n.a.	n.a.	+1.4
1923	n.a.	n.a.	10.6	n.a.	n.a.	+0.7
1924	n.a.	n.a.	11.6	n.a.	n.a.	+1.0
1925	n.a.	n.a.	12.8	n.a.	n.a.	+1.2
1926	n.a.	n.a.	13.7	n.a.	n.a.	+0.9
1927	n.a.	n.a.	14.7	n.a.	n.a.	+1.0
1928	n.a.	n.a.	15.7	n.a.	n.a.	+1.0
1929	2.2	14.5	16.8	n.a.	n.a.	+1.1
1930	2.4	15.6	18.0	+0.2	+1.1	+1.2
1931	2.6	16.5	19.1	+0.2	+0.9	+1.1
1932	2.8	16.5	19.3	+0.2	0.0	+0.2
1933	3.0	16.6	19.5	+0.2	+0.1	+0.2
1934	3.2	15.7	18.8	+0.2	-0.9	-0.7
1935	3.3	15.7	19.0	+0.1	0.0	+0.2
1936	3.3	15.9	19.2	0.0	+0.2	+0.2
1937	3.2	15.9	19.2	-0.1	0.0	0.0
1938	3.3	15.9	19.2	+0.1	0.0	0.0
1939	3.3	16.3	19.6	0.0	+0.4	+0.4
1940	3.5	16.4	19.9	+0.2	+0.1	+0.3
1941	3.4	16.8	19.9	-0.1	+0.4	0.0
1942	3.2	16.5	19.4	-0.2	-0.3	-0.5
1943	2.9	15.8	18.4	-0.3	-0.7	-1.0
1944	2.8	14.7	17.2	-0.1	-1.1	-1.2
1945	2.4	14.2	16.3	-0.4	-0.5	-0.9
1946	2.4	13.6	15.6	0.0	-0.6	-0.9
1947	3.0	13.8	16.5	+0.6	+0.2	+0.9
1948	3.7	15.0	18.4	+0.7	+1.2	+1.9
1949	4.0	16.9	20.5	+0.3	+1.9	+2.1

Sources: Annual Reports of the Secretary of the Treasury for 1919-28. Bureau of Foreign and Domestic Commerce, *Economic Series No. 21*, *Indebtedness in the United States, 1929-41* (1942), pp. 24-5; Bureau of Census, *Government Debt in 1949* (Dec. 1949), p. 6, since 1941. The totals are less than the state and local columns because state loans to local governments are excluded from the state figures. Moreover, the figures since 1941 include a small amount of noninterest-bearing debt. n.a.: not available.

Another interesting development in state and local debt was the marked increase in temporary borrowing after 1931 (Table 13), indicating that state and local governments had difficulty in long-term borrowing,⁶ and were forced to issue securities that matured within a short period and had to be refunded.

⁶ *Ibid.*, p. 303. After 1934, however, part of the continued high level of temporary loans is to be explained by the favorable interest rates.

Table 13

Gross State and Local Borrowing, Long-term and Temporary, 1929-1939
(millions of dollars)

	Long-term Bonds incl. Purchases by Federal Agencies	Temporary Loans	Total	Temporary Loans as % of Total
1929	1,431	909	2,339	39
1930	1,487	996	2,483	40
1931	1,256	936	2,192	43
1932	980	1,287	2,267	57
1933	1,005	1,374	2,379	58
1934	1,228	988	2,216	45
1935	1,299	1,035	2,329	44
1936	1,173	884	2,057	43
1937	1,011	1,060	2,071	51
1938	1,264	1,210	2,474	49
1939	1,183	1,181	2,364	50

Source: *Municipal Yearbook, 1940*, p. 189.

Another mark of the depression on state-local borrowing was the sharp increase in the rate of interest that had to be paid on issues of state and local bonds in 1932-33: 52.5 percent of the municipal bonds floated in 1932 bore a rate of 5 percent and higher, despite a marked drop in total flotations (Table 14). A great many issues could not be marketed at all in 1932-33.⁷ The panic situation of the market in these years which affected corporate and even federal bonds was short-lived and many state and

⁷ Harvey Perloff states that "in 1932, 697 issues totalling \$260 million could not find a market; in 1933, 528 issues with a dollar volume of \$212 million failed of sale, including sales by such governments at Buffalo, Philadelphia, Cleveland, Toledo, Mississippi, and Montana" (Seymour E. Harris, *Postwar Economic Problems*, McGraw-Hill, 1943, p. 225). Gayer writes of "the demoralization of municipal credit" in 1932 which meant that "many municipalities found themselves unable to dispose of bonds and notes to cover maturities" (*op. cit.*, pp. 303 and 306).

Table 14

Coupon Rates of State and Municipal Bonds Sold, Percentage Distribution, 1929-1934

	1929	1930	1931	1932	1933	1934
Lower than 4%	.24	1.42	20.67	5.94	22.29	43.96
4¾ %	60.14	79.79	64.65	40.72	47.95	38.70
5% and higher	38.91	18.11	14.19	52.52	26.73	15.21
Unknown and unusual	.71	.58	.49	.82	3.03	2.13

Source: *Municipal Yearbook, 1936*, p. 307, reproduced from State and Municipal Compendium, June 1935. David Durand and Willis Winn have shown that a marked tendency exists for yields of municipal bonds to vary with coupon rates: Basic Yields of Bonds, 1926-47; Their Measurement and Pattern, NBER *Technical Paper 6*, December 1947, pp. 31-40.

municipal bonds which in 1933 yielded 6-7 percent yielded 3 percent a few years later.⁸

The contrast between the situation of the federal government and that of state and local governments with respect to borrowing and interest rates after 1929 is striking. Average interest rates payable on all federal debt at the end of the calendar year swung down rapidly after 1929, whereas that on all state and local debt held up until after 1932, then declined only gradually (Table 15). The result was a widening spread between the two averages, 1929-35, which was noticeable and significant; and even after 1935 the spread narrowed only slowly. Unlike the federal government, most state and local governments were unable quickly to take advantage of easier money by refunding outstanding issues, many of which were in the form of serial bonds.⁹

Table 15

Average Interest Rates Payable on Debt at End of Calendar Year, 1929-1940

	Federal Govern- ments	State & Local Govern- ments	Spread		Federal Govern- ments	State & Local Govern- ments	Spread
1929	3.99	4.55	0.56	1935	2.50	4.38	1.88
1930	3.84	4.53	0.69	1936	2.47	4.25	1.78
1931	3.70	4.52	0.82	1937	2.46	4.15	1.69
1932	3.50	4.55	1.05	1938	2.57	4.00	1.43
1933	3.20	4.52	1.32	1939	2.55	3.75	1.20
1934	2.86	4.48	1.62	1940	2.52	3.50	0.98

Source: Bureau of Foreign and Domestic Commerce, *Economic Series No. 21*, p. 68.

The adverse effects of severe depression upon local, and in less degree upon state, finances indicates that in this respect these governments are somewhat like private business. It suggests also that the responsibility for financing whatever counter-depression measures governments undertake may need to rest largely upon the federal government.

⁸ Compare the following yields of selected municipal bonds, compiled from a Chemical Bank and Trust Company pamphlet issued in 1950:

		December	
		1933	1936
Detroit Street Ry.	4½ %, 1950	9.10	3.00
Elizabeth, N. J.	4¾ %, 1960	6.70	3.10
Jersey City, N. J.	4¼ %, 1953	8.50	3.40
Trenton, N. J.	4 %, 1949	6.35	3.00
Nassau Co., N. Y.	4½ %, 1950	6.20	2.75
Akron, Ohio	4½ %, 1950	7.50	3.80
Cleveland, Ohio	5½ %, 1964	7.50	3.60

⁹ The increase in rates of federal income tax that came with World War II, however, made exemption of interest on state and local securities more valuable and brought a relative strengthening of their borrowing power.