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Abstract

The general objective of this paper is to examine the volume of state and local governmental revenue and the level and quality of public services which must be raised if the state and local public sector in West Virginia is to play an important role in furthering the economic growth of the state, and if West Virginia is to compete with other states for resources which implement growth.

The specific objective of this paper is to summarize the results of a recent study of West Virginia public spending in terms of implications for state and local fiscal policy (1). The focal point of the present analysis is on the questions of: (1) How should the financial responsibility for providing government services be divided among the levels of government—*i.e.* federal, state, and local units—to best meet West Virginia's current and future needs? (2) What revenue sources *are* available at each level of government in West Virginia and what potential revenue sources *are not* now available to West Virginia local government? (3) What are the probable consequences for the state and the individual county areas if the existing government structure and legal restrictions on revenue sources remain unchanged? Finally, the objectives of present state-aid programs are evaluated in regard to affects on state and local government service levels and compatibility with the objectives of state economic development and growth.

IN 1962, four states had smaller per capita state and local government expenditures than West Virginia, and nine states had smaller per capita perconal income (Table 1). In tax effort, West Virginia ranked 29th among the states. From 1957-1963, the per cent increase in per capita state and local expenditures in West Virginia was slightly above the national average, but the absolute increase was below the national mean. Hence, over time, the difference between the level and quality of public services provided in West Virginia and that which is provided in many other states may be increasing. While ranking low relative to other states in per capita government expenditures on local functions (local roads and streets, police and fire protection, and sewage and sanitation facilities), West Virginia ranks 7th in per capita education expenditures.

Further, limitations on the taxing authority granted local governments are specified in the State Constitution, amendments to the Constitution, and the rulings of the State Supreme Court. The State Constitution limits the taxing methods available to the local governments to the property tax and a municipal gross sales tax. The State Tax Limitation Amendment of 1933 has resulted in relatively low property tax yields. In 1949, the State Supreme Court ruled state grants-in-aid to local governments (other than school districts) to be unconstitutional. (Since 1949, the local governments have financed the local functions entirely with locally raised revenues.)

TABLE 1. SELECTED PUBLIC FINANCE STATISTICS. A COMPARISON OF WEST VIRGINIA WITH NATIONAL AVERAGES FOR 1962

	United States Average	West Virginia Amount	West Virginia Rank
Public Expenditure Measures			
(1) Per capita state and local	$343.64	$250.72	46
(2) Per capita state and local (less federal grant)	299.25	196.14	46
(3) Per capita federal grants	44.39	54.58	22
Fiscal Capacity Measures			
(4) Per capita income	2366	1810	41
(5) ACIR Composite Income[a]	2382	1903	38
(6) ACIR Per Capita Yield of a Representative Tax System[a]	202	150	41
Tax Effort Measures			
(7) State-local revenues from own sources per $1,000 of personal income	117.61	116.20	29
(8) ACIR Composite Income[b]	100	92	31
(9) ACIR Representative Tax System[b]	100	101	18

[a]Advisory Commission on Intergovernmental Fiscal Relations, *Measures of State and Local Fiscal Capacity and Tax Effort*, October, 1962. Composite income is an index combining personal income, income produced, and income earned to more accurately reflect the total income flow available to the state for tax purposes. The yield of representative tax system is measured by evaluating the bases available for taxation in each state and then estimating the amount of revenue each could raise if all applied a uniform tax system.

[b]The ACIR estimated tax effort by dividing each of the above capacity measures into state and local tax collections. The states were then ranked by relatives where the national average is 100 per cent.

One consequence of the tax limitations placed on the local governments is that the state has assumed the responsibility for financing over 50 per cent of all state and local public services. Only in two other states does state government assume such a large share of the responsibility for financing in the state and local public sector.

Sources of Future Revenue for State and Local Public Services

Among the possibilities which could produce an amount of state and local government revenues necessary to finance a level of public services which approximates the national average are: (a) revising the tax structure at the state level, (b) removing the tax limitations imposed on local governments, (c) making state aid to local governments constitutional, (d) intensifying the present system of federal grants-in-aid, and (e) initiating new federal programs of assistance.

Federal Assistance to West Virginia

As previously pointed out West Virginia's ability to raise revenue at both the state and local level is limited relative to most other states. Given these legal and economic limitations on the revenue-raising ability of West Virginia state and local governments, if West Virginia is to catch up in the provision of public services, even to the national average, it must procure substantially more federal assistance.

Several methods have been considered for distributing federal assistance among the fifty states but not all may be equally advantageous from West Virginia's point of view. These methods can be evaluated on the basis of: (a) total revenue potential for the state, (b) limitations placed on the use of the assistance (*i.e.* the type of public service for which the grant may be used), and (c) necessity of revisions in the State Constitution.

Grants-in-aid—There are three basic forms of grants-in-aid, conditional, unconditional, and the block grant. The main features of conditional grants are: (a) the funds must be spent for a designated function, (b) the grant is generally made directly to the state rather than the local government, and (c) the state is usually required to provide some matching funds from its own sources. It is contended that conditional grants enable the federal government to insure minimum levels of service of the aided functions in all states. In 1963, West Virginia received $54.58 per capita from conditional grants and ranked 22nd among the states.

Unconditional and block grants do not usually have provisions for matching funds and do not restrict the use of the grant to specific services. Block grants are contingent on the funds being used to finance broadly defined functions *e.g.* public assistance. A conditional grant restricts funds to finance specific categories of public assistance (5). Unlike either of these, the unconditional grant has no restrictions included as to the use of the funds, *i.e.* the funds may be used to finance any state-local function. The advantage of the block grant form over the conditional grant form is a partial elimination of budget distortion created by the shifting of funds from non-aided functions. Also, since most states have certain needs which may not exist in a majority of the other states, and since these specific functions may be in need of federal assistance, block grants provide the state with such a source of revenue.

Walter Heller, Chairman of the Council of Economic Advisors under Presidents Kennedy and Johnson, suggested a plan to distribute block or unconditional funds among the states on an equalizing basis. A modification of the Heller Plan, which was suggested by Joseph Pechman, is composed of a major portion and an equalization portion. The fraction of the major portion allocated to each state is obtained by the following formula:

$$\frac{P_i R_i}{\sum_{j=1}^{50} P_j R_j}$$

Where P_i is the population of the i^{th} state and R_i is the relative state and local revenue effort (the ratio of state and local general revenues from own sources to total state personal income). The terms in the denominator $\sum_{j=1}^{50} P_j R_j$ represents the sums of these values over all 50 states. Hence, a state may improve the fraction of the major portion of aid it receives by increasing its fiscal effort relative to that of the other 49 states.

The equalization portion of the grant would be distributed only to the poorest one-third of the states according to the formula

$$\frac{P_j / Y_j}{\sum_{j=1}^{50} P_j / Y_j}$$

where P_j is the population of the j^{th} state, and Y_j is per capita personal income of the j^{th} state. Roughly, the formula provides for distribution among the 17 states in which the fraction received is directly related to the relative population size and inversely related to relative per capita income, population being more important than income in determining the fraction.

The size of the equalization portion is not specified by Pechman and no doubt would be a subject of much debate should this form of federal assistance continue to receive attention. According to Plummer most conjectures about the size of the equalization portion put the fraction anywhere from 10 to 25 per cent. He calculates the proportion of $1 billion which each state would receive under the assumption that the equalizing proportion is 10 per cent and again under the assumption that it is 25 per cent. He concludes that West Virginia would rank 13th under the 10 per cent assumption and 12th under the 25 per cent assumption. In either case the state would benefit since, as previously noted, it ranks 22nd in the existing conditional grants scheme. Both West Virginia's absolute share and relative share of federal assistance would increase under this plan.

The Negative Income Tax (3, 4)— The negative income tax is an income tax in reverse. Under the present federal income tax system, persons with incomes greater than a specified amount pay taxes and those with income less than the specified amount do not. The negative income tax proposal adds a third dimension by providing that those who do not pay taxes receive payments from the United States Treasury. Since these payments are made directly to individuals, the benefits derived by state and local governments will be only indirect; for example, the need for public assistance payments may be reduced thereby freeing resources for other purposes. However, the most important potential effects of a negative income tax on the public sector would be long-run, and related to the degree to which this anti-poverty measure is a stimulus to the economic development of the state. Hence, the negative income tax proposal does not afford state and local government (even in a state such as West Virginia which would benefit substantially from such a tax), a great amount of relief from *current* fiscal problems.

Tax Credit and Tax Sharing—Tax sharing is defined as the relinquishment of some tax source by one level of government to another (in this case the federal government relinquishes some tax source to state and local governments). The tax on local telephone service is the most often suggested candidate with respect to the latter proposal. However, this and other possibilities which have been mentioned have the common shortcoming that they are relatively small sources of revenue and would probably be of little assistance to the lower income states such as West Virginia.

Under the tax credit proposal. the taxpayer would be allowed to deduct from his federal income tax payment a substantial percentage (40 per cent has been suggested) of his state income tax payments. This would enable the state to increase personal income taxes with the net effect of shifting up to 40 per cent of the increased taxpayer burden to the federal government. Since the credit is allowed against income, the more wealthy states would potentially benefit most from this type of credit. Consequently, it appears that neither of these alternatives offers a method of federal assistance which would be advantageous to West Virginia's state and local governments as a system of grants-in-aid allocated among states on an equalizing basis.

TATE ASSISTANCE TO LOCAL GOVERNMENTS

Given an increased volume of state revenue from federal sources and from tax ›form at the state level, the state government must distribute increased revenues mong the competing current needs for public services—both the presently aided ınctions and the local functions.

As pointed out, since 1949 there has been no direct state expenditure on local ınctions and no state grants-in-aid to the local functions. Consequently the local ɔvernments, many of which cannot raise sufficient revenue to support the needed vel of local services, are severely restricted in ability to raise revenues. The con- ›quence is that in West Virginia the level of per capita expenditures on the local ınctions ranks behind most of the other 49 states.

Although the state makes direct expenditures and grants-in-aid to the aided ınctions, the current level of per capita expenditures on these functions (except elfare) ranks far below the national average. Hence, if the levels of all public ›rvices are to be raised, there is need for increased state revenues in the local ınctions as well as the aided functions, and it is necessary that the state find some ›nstitutionally valid method of giving grants-in-aid to the local government. The tter point is essential unless the state desires to assume the responsibility of financ- g and administering a portion of the local functions (2).

There are a number of alternative methods by which the state may allocate lditional funds. In this section is presented a cursory explanation of the possibili- ›s open to the state governments for alleviating fiscal pressures on local govern- ents.

Direct Expenditures—If additional state revenues were to become available, the ıte could increase assistance to local areas by increasing direct expenditures for the .ucation, highway, and welfare functions. This conceivably would free some local nds for the typically locally financed functions and hence could raise local public rvice levels. This effect is unlikely in West Virginia for several reasons: (1) The ly local government unit which is embodied with the power to collect local edu- tion revenues is the school district. Thus, increased amounts of state revenue given the school districts would not guarantee that any locally raised education revenue ɔuld be available for increased support of the local functions. (2) There is no unty government expenditure on highways and a small amount on welfare. Thus, ›reased expenditures by the state on highways and welfare would free virtually local revenue to the county government for increased support of the other func- ns. (3) There is no municipal expenditure for welfare and a modest amount for y roads and streets. Moreover, municipal governments are responsible for the con- uction and maintenance of all city roads and streets while the state is responsible all primary and secondary roads outside of city limits. Hence, increased state ɔenditures on highways and welfare would be unlikely to free any municipal funds increased support of the local functions.

Other shortcomings of this method are that it reduces local autonomy, or makes expenditure decision a state rather than a local decision. Further it requires the te government to assess the relative priority of needs among aided functions in ›h county area.

State Grants-In-Aid—Two forms of the grants-in-aid may be considered as theo- ical possibilities for assisting West Virginia local governments. The first is the con- ional, or earmarked, grant which is made to a local government for a specific purpose. The second type is an unconditional or a block grant which is made to a local government with little or no restrictions on its use.

It is contended that a major advantage of the unconditional or loosely defined grant-in-aid is that the expenditure decision becomes a local matter. Proponents of this method argue that there is a question concerning the relative efficiency with which the state government can accurately assess the differing needs and priorities of great numbers of municipal and county governments throughout the state. Opponents to the block grant method counter with the argument that the state government has a vested interest in assuring that certain public functions be supported at predetermined standards and that a conditional grant or direct expenditure policy could be used to assure these standards.

In the case of West Virginia, state grants-in-aid is one method of assisting the local governments in raising the level of local public services, but under the present State Constitution and amendments, state grants-in-aid are unconstitutional.

Shared Taxes and Other Methods—Another method of providing state assistance to local areas is the shared tax. Under this scheme, the state controls both the levy and administration of the tax while a fixed and uniform proportion of the amount collected in each county is allocated back to that county. Theoretically, the most appealing prospect for a shared tax in West Virginia is the gross receipts, or gross sales tax. Though this source would generally satisfy the taxation maxims of productivity and stability, it is subject to what could be a major reservation in that it would provide for the largest yield in those counties where economic activity is greatest and hence would not have an equalizing effect.

Of course, certain local governments could elect to use the method of a tax supplement, *i.e.* to impose an additional rate on a state revenue source as some West Virginia cities have done with the gross receipts tax. The general problem with a tax supplement is that it permits the local government to assess a rate on the base of a state tax independently of the state taxing decision (though maximum rates are set by the state in this case). This could prove incompatible with the state fiscal goals of long-run flexibility in the tax system and could result in an inequitable distribution of taxpayer liability.

Several other possibilities for improving the fiscal plight of West Virginia local governments remain, but many would require a revision of the State Constitution (as would a proposal of grants-in-aid to municipalities).

Elimination of Tax Limitation—Although granting the local government freedom in choosing local tax methods and setting tax rates would increase revenues raised by local governments for the state as a whole, many local governments with the lower fiscal capacities and local tax efforts would not be able to support adequate levels of the local public services. Therefore, state grants-in-aid still would be the only source of increased revenues.

Other than tax sharing and tax supplement, a local income tax and property taxes are two tax methods by which West Virginia local government could raise additional revenue from local sources.

AN EVALUATION OF THE EQUALIZATION OF PUBLIC SERVICE LEVELS

The previous sections of this paper describe possibilities for raising the volume of revenue from all sources and, hopefully, the public service levels for the state as a whole. It is the purpose of this section to consider certain aspects of the problem of how the state should distribute state and federal funds among the county areas.

The public sector may not only play a significant role in the economic development of the state but also may give direction to the form of this development. Since state revenues are a scarce resource, and since the level of public services in the state is generally very low, the future geographic allocation of state assistance may be an important determinant of the interstate pattern of growth in the private sector.

The existing state policy of allocating state and federal revenue among the county areas is one of equalization, *i.e.* uniformity within the state in public service levels. Those county areas which are characterized by lower income levels, lower fiscal capacities, and lower fiscal efforts receive the larger per capita state aids and direct expenditures. However, under certain assumptions equalization may not be a desirable goal.

For example, assume that some predetermined goals of the development of economic activity and the long-run elimination of poverty in West Virginia may be accomplished by encouraging migration within the state to the more heavily urbanized areas. To the extent state revenues are distributed on an equalizing basis, there will occur an allocation which substantially improves the level of total public spending in the lower income counties. It could be argued that a less equalizing distribution of state assistance (*i.e.* one that favors urban areas) would be more compatible with the above assumed goals on the grounds that rural-urban migration is at least partially affected by the relative attractiveness of the rural and urban alternatives. If tax effort as well as fiscal capacity is relatively low in the rural area, but state assistance results in per resident expenditures which are comparable to outlays of governments in urbanized areas, the relative attractiveness of the urban area is not enhanced.

Conversely, it might be argued that equalization of education, highway, and welfare is compatible with any overall plan for the economic development of the state, even one which calls for movement to the urban areas. Welfare expenditures should be distributed on the basis of need; this in itself will be in accordance with any plan of development. Since it is possible that the greatest level of need for highway facilities is in the urban areas, the argument that equalization of highway facilities is consistent with any state development plan is less convincing. There is a definite need, however, for an adequate coordinated system of roads to facilitate interstate and intercounty traffic flows with minimal interference from intracounty traffic.

It is important to note that there is no analogous argument for equalization of the local function service levels being consistent with any development plan.

OPPORTUNITY COST OF EQUALIZING

The real cost of equalizing public service levels is the increased service levels foregone in those areas which would have received a larger share of state revenue had some alternative distribution method been used. The alternative methods of either a uniform distribution or a distribution on the basis of the proportion of state revenue collected in the area would result in the urban areas receiving a larger proportion of state revenue. Over time, the disparity within the state in public services has been increasing. The basic reason for this is increased disparity in fiscal capacities and fiscal effort. If state assistance remains to be distributed on an equalizing basis, then the low income, low fiscal effort, and rural areas in West Virginia will, through time, receive a larger share of the state assistance. Consequently, the foregone increase in public service levels in the high income urban areas—the opportunity costs of equalization—would become larger as they receive a smaller portion of state assistance.

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ABSTRACT, SOCIAL SCIENCE

Attitudes or Vocabulary: Validation of the Youth Attitude Survey

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As part of an evaluation of the impact of a community action program in one of the southern counties of West Virginia, baseline data on demographic factors, attitudes, values, and beliefs were obtained. One special population group of great interest consisted of the youngsters in grades 9 through 12 of this county. A questionnaire was constructed to obtain information regarding their attitudes towards achievement, religion, family, future, degree of alienation, and other pertinent dimensions. The scales of this questionnaire were drawn from a number of previous studies meant to obtain such information. Review of these scales presented the possible problem that the questionnaire items, due to their vocabulary, would not be understood by youngsters in a deprived environment where there was great loss from the school system in the form of dropouts, and where some of the schools may not be up to the standards of the initial samples on which these scales were used.

Since the lowest age-group being surveyed were ninth graders, it was decided that all words sixth grade and above would be culled out and a vocabulary test made from these. A vocabulary test of 30 words, in their questionnaire context, was therefore given to a sample of ninth-grade youngsters and school dropouts. A high standard of 90 per cent passing was set for those words which would be left in the questionnaire. Twenty of the thirty words were missed by 11 per cent or more of the youngsters, some words being missed by over half. The pre-test of the understandability of the instrument verified the investigators' assumption that instruments need to be tailored to the special circumstances of regional groups in Appalachia.

Preliminary analysis indicates that validation of social instruments, such as attitude questionnaires, needs to be done on such factors as comprehensability; otherwise the information obtained may be radically biased due to the respondent making choices at random, rather than in line with what he thinks and believes.