

FEDERAL AID TO OKLAHOMA / WITH  
PARTICULAR ATTENTION TO  
THE HIGHWAY PROGRAM

By

James L. Newton

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Southern State College

Magnolia, Arkansas

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Thesis Approved:

*Ansel M. Sharp*

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Thesis Adviser

*Julian H. Bradsher*

*Robert Merwin*

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Dean of the Graduate School

JAN 2 1962

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## TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION . . . . .	1
Statement of Purpose . . . . .	1
Method . . . . .	3
II. REVIEW OF FEDERAL GRANTS-IN-AID . . . . .	6
Development of Federal Aid . . . . .	6
Development of Federal Aid to Oklahoma . . . . .	11
How Grant-In-Aid Programs Work . . . . .	22
Summary . . . . .	25
III. FEDERAL GRANTS-IN-AID AS A SOURCE OF REVENUE IN OKLAHOMA . . . . .	28
Introduction . . . . .	28
The Importance of Federal Aid as a Source of Revenue . . . . .	29
The "Cost" of Federal Grants-in-Aid to Oklahoma . . . . .	43
Summary . . . . .	53
IV. EVALUATION . . . . .	54
SELECTED BIBLIOGRAPHY . . . . .	65

LIST OF TABLES

Table	Page
I. Distribution of Federal Interstate Highway Funds Under The Act of 1956 Over The 13 Year Authorized Period . . .	12
II. Federal Grants In Aid Programs, With Federal Agency and Oklahoma Agency Administering the Programs . . .	14
III. Federal Grants To Oklahoma Selected Years 1930-1958 . . .	17
IV. Oklahoma Revenue By Major Sources for 1958 . . . . .	29
V. General Revenue Per Capita, Federal Aid Per Capita, Ratio of Federal Aid to General Revenue on a Per Capita Basis for Upper 14 States and Lower 14 States . . . . .	36
VI. Provisions Governing the Disposition of State Motor-Fuel Tax Receipts In Oklahoma . . . . .	40
VII. Assumed Highway Revenue In Oklahoma Without Federal Aid . . . . .	41
VIII. Grants Received, Internal Revenue Collections, Assumed Contributions, Grants As A Per Cent of Assumed Contribution For All States In 1958 . . . . .	45
IX. Grants Received, Personal Income, Assumed Contributions and Grants As A Per Cent of Assumed Contribution For All States In 1958 . . . . .	47
X. "Cost" Of The Grant-In-Aid Program In Oklahoma For Selected Years 1930-1958, Based on Personal Income Payments . . . . .	51
XI. "Cost" Of The Grant-In-Aid Program In Oklahoma For Selected Years 1930-1958, Based on Internal Revenue Collection . . . . .	52

LIST OF FIGURES

Figure	Page
1. Federal Grants To Oklahoma, Selected Years 1930-1958 . . . . .	19
2. Diagram of the Administrative Procedure of Federal Grants-in-Aid . . . . .	26
3. Per Cent of State Revenue From Major Sources, 1942-1958 . . . . .	31
4. Rank of States According to Per Cent of State Revenue Received From the Federal Government and Per Cent Received in 1958 . . . . .	33
5. Per Cent of State Revenue Received From the Federal Government in 1958 . . . . .	34

## CHAPTER I

### INTRODUCTION

#### Statement of Purpose

Before the turn of the century state and local governments established, financed, and administered most of their activities. However, as the nation developed our social, economic, and political growth created conditions where it seemed necessary for the federal government to share some of the responsibilities of state and local governments. As a result the United States Congress has over the years increasingly recognized the federal grant-in-aid<sup>1</sup> as an effective method of advancing important work of national interest. The objectives of such federal grant-in-aid programs are:

(1) to reduce the inequalities in the services among the states because of the differences in their financial resources and differences in the

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<sup>1</sup>"Federal grants-in-aid" is a term used to define a method of operation whereby federal funds appropriated by Congress are made available for the support of a state or locally administered program of governmental service to the public.

size of the problems to be met,<sup>2</sup>

(2) to help establish minimum standards in public services, while retaining state and local administration,<sup>3</sup> and

(3) to be used as a countercyclical device.<sup>4</sup>

It is the purpose of this thesis to study the federal grants-in-aid to Oklahoma in order to (1) gain an understanding of how the grant-in-aid device works and to set forth the trends that have emerged with respect to these grants to the state of Oklahoma, and to (2) determine the importance of grants as a source of revenue for Oklahoma.

To achieve these objectives, one federal aid program (the highway aid program) is treated in some detail. This somewhat extended analysis serves as an "illustrative case" that brings out major issues encountered in the use of federal aid programs in financing state activities.

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<sup>2</sup>The American Parents Committee, Inc., Handbook on Federal Grants-in-Aid (Washington, 1953), p. 6.

<sup>3</sup>Ibid.

<sup>4</sup>For a discussion concerning the purpose, side effects, and other characteristics of grants-in-aid, see: The Council of State Government, Federal Grants-in-Aid (Chicago, 1949) and Howard G. Schaller, "Federal Grants-in-Aid and Differences in State Per Capita Incomes 1929, 1939, 1949," National Tax Journal (Lancaster, 1959), pp. 287-299.



### Method

This study is primarily concerned with the present situation with respect to federal grants-in-aid to Oklahoma. Whenever possible data for 1958 have been used and when 1958 data were not available 1957 data were used. In order to show basic trends and important changes that have taken place in federal grants to Oklahoma it was necessary to use historical data.

Data for this study have come from the United States Department of Commerce, United States Treasury Department, United States Department of Internal Revenue and the Oklahoma State Highway Department.

The aid programs studied are the ones' involving the United States Government and the State Government. No attempt has been made to examine grants from state governments to local units. (In some cases grants, such as airport grants, are made directly from the federal government to local units and these have been included when relevant to establish the total funds transferred.)

In developing parts of the study it became necessary to make various assumptions. These assumptions, carefully explained whenever used, were necessary because in many cases data were not available to substantiate the study. However it is felt that the assumptions are so outlined that the results drawn from their use are beneficial.

Federal aid to the states appears to be an increase in total state revenue without cost to the state. However this is not true. States pay taxes to the federal government of which part is used by the federal government to finance its grant-in-aid programs to the states.

Unlike many federal programs, grants are financed from general revenue, not by a specific tax.<sup>5</sup> It is therefore impossible to determine exactly how much each state "contributes" to the federal government to finance grants-in-aid. However a relative indication of these costs can be determined if certain assumptions are made. In Chapter III these assumptions are outlined and the cost to the various states is determined.

Chapter II is a review of federal grants-in-aid. The first part is a discussion of the development of federal aid to the states for highway construction. This is presented as an illustrative example of how federal aid has developed. The second part of the chapter is concerned with the development and growth of federal aid to Oklahoma. This brief history points out the types of aid granted, their purpose, and the amounts of aid involved. The final section is an explanation of how aid programs work using the 1956 Highway Act as an example.

Federal aid as a source of revenue for Oklahoma is the subject of Chapter III. The importance of federal aid as a source of revenue is discussed. In this part of the chapter federal aid to Oklahoma is

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<sup>5</sup>The 1956 Highway Act is an exception. This act earmarked a four cent per gallon federal gasoline tax to be used to support the Federal Interstate Highway Program.

compared with the aid to other states. A portion of the chapter is also devoted to the cost of the aid programs to the states. A cost figure to the states is derived from both internal revenue collections and personal income. In both cases a cost per dollar of aid figure is calculated. This is used to determine the states' relative position in aid program benefits.

The concluding chapter is an evaluation of the grants-in-aid program. The basic arguments both for and against federal aid to the states are presented. These arguments are analyzed in light of the information presented in this study.

## CHAPTER II

### REVIEW OF FEDERAL GRANTS-IN-AID

This chapter has a three fold purpose. The first is to discuss the development of grants-in-aid to the states using the highway program as an illustrative example. The second is a review of the development of grants to Oklahoma. In both discussions the reasons for the grants, the type aid granted, the magnitude of grants and the general trends that have developed are pointed out. The final section is an explanation of how the aid programs work using the Highway Act of 1956 as an example.

#### Development of Federal Aid

Federal grants to the states are by no means a new development. Almost 200 years have passed since the first land grants were made to the states. Since then grants have undergone quite significant changes in both purpose and amounts of aid involved. In order to show these changes the highway program has been used to serve as an example of federal aid development.

The Constitution delegated to Congress, as one of its many powers, the power "to establish post offices and post roads". In 1806 the Federal Government began construction on the National Pike from Cumberland, Maryland to the Mississippi River. Over a thirty-eight year span Congress appropriated \$6,825,000 for its construction.<sup>1</sup>

During the 1820's both federal and state interest centered on the construction of canals and railroads. Around 1880 people began to show an interest in obtaining roads from farms to railroads. In 1893 Congress directed the Secretary of Agriculture to study the best method of road building. This research continued for some twenty years and in 1912 sixty bills were introduced before Congress for federal participation in highway construction. Several of these proposals called for direct federal construction while others wanted aid to the states for joint federal-state construction.<sup>2</sup>

Also in 1912 the Post Office Department authorized \$500,000 for rural road construction with the provision that the state and local units of government match federal funds on a two to one basis. This resulted in the construction of 425 miles of roads in 17 states.<sup>3</sup>

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<sup>1</sup>Temporary Commission on the Fiscal Affairs of State Government, A Program for Continued Progress in Fiscal Management (New York, 1955), p. 468.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid., p. 469.

In 1915 a joint committee of Congress reported that federal aid to the states for good roads would accomplish certain objectives specified in the Constitution. Some of these objectives were the establishment of post roads, the regulation of commerce, provision for the common defense, and above all, the promotion of the general welfare. In keeping with these recommendations the foundations of our present cooperative federal-state highway program were laid with the passage of the Federal Road Act of 1916.<sup>4</sup> This act appropriated \$75 million for construction of rural roads for a five year period ending in 1921. Five million dollars was to be spent in 1917 and the remainder over the next four years. In 1919 \$200 million was added to highway funds for employment of veterans, the funds being distributed by the Secretary of Agriculture to the states on an equal matching basis. The states received funds based one-third on area, one-third on population, and one-third on rural route mileage in the state. The carrying out of the program on the state level was under the direction of the state highway departments. Ten states set up such departments for the first time in order to secure benefits under the terms of the federal authorization.<sup>5</sup>

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<sup>4</sup>Ibid.

<sup>5</sup>Ibid.

A 1921 act contained important amendments that were aimed toward the creation of an interstate road system and the improvement of federal controls. It stated that not more than seven per cent of each state's total mileage could be improved with the aid of federal funds. A maximum of 3/7 of this mileage was to primary highways, the balance in secondary roads. This marked the beginning of the designation of specific categories in the federal aid system. State maintenance of these roads was assured by giving the Secretary of Agriculture power to maintain the roads and charge said expenses against federal funds allotted to that state.<sup>6</sup>

During the depression years Congress (beginning in 1933) removed many restrictive aspects of its highways policy and authorized more funds on a non-matching basis.

The Act of 1944, in addition to authorizing \$500 million for each year of 1946, 1947 and 1948, provided funds for urban construction and in Section 7 provided for a national system of highways not to exceed 40,000 miles.<sup>7</sup>

Funds for 1950 and 1951 were authorized by the Act of 1948, which also stated the terms "secondary" and "feeder" roads were to

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<sup>6</sup>Ibid.

<sup>7</sup>The Council of State Governments, Federal Grants-in-Aid To States Analysis of Laws in Force on September 10, 1956 (Chicago, 1956), pp. 34-35.

include county and township roads and that the state highway departments were to cooperate with the local units in road building.<sup>8</sup>

In 1950 Congress appropriated funds for 1952 and 1953 and also said that the states which sell bonds to finance toll-free roads may use federal aid funds to help retire such bonds. The 1952 act authorized funds for 1954 and 1955 and also set aside \$10 million in emergency funds on a matching basis for repairs due to floods and other catastrophies.<sup>9</sup>

The Federal Highway Act of 1954 was similar to the 1952 act except it appropriated \$175 million for a national system of interstate highways. It also increased to 60 per cent the federal share of interstate highways.<sup>10</sup>

The method of distribution among the types of highways, the method of appropriation among the states and the amount of funds involved in the Federal Aid Highway Act of 1956 are discussed later in this chapter. Briefly, these provisions called for the funds to be distributed 45% for federal aid primary roads, 30% for federal aid secondary roads, and 25% for federal aid urban roads. The primary funds were divided among the states according to state area, population and

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<sup>8</sup>Ibid., p. 36.

<sup>9</sup>Ibid.

<sup>10</sup>Ibid.



highway mileage. Secondary road funds were divided on a basis of total state area, rural area, and urban delivery star routes. Urban funds were distributed according to population. Under the act \$125 million was authorized for 1957, \$850 million for 1958 and \$875 million for 1959.

The major significance of the 1956 Highway Act was found in Section 108, which authorized \$24,825,000,000 over a thirteen year period for the establishment of interstate highways. This greatly exceeded the \$1,850,000,000 authorized for regular primary and secondary highways. The interstate system funds for 41,000 miles of highways were to cover ninety per cent of the construction cost while the states were to contribute the remaining ten per cent.<sup>11</sup> Table I shows how these funds are to be distributed over the thirteen years.

#### Development of Federal Aid to Oklahoma

Oklahoma began receiving aid long before it became a state.

The organic act of Oklahoma Territory made provisions for setting aside certain land as an endowment for public schools. Each act of Congress opening additional land to settlement in Oklahoma Territory reserved certain sections of this land for educational purposes.<sup>12</sup>

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<sup>11</sup>Oklahoma Highway Department, Oklahoma and the 1956 Federal Highway Act (Oklahoma City, 1956), p. 5.

<sup>12</sup>Fifth Biennial Report of the State Superintendent of Public Institutions, Oklahoma State Department of Education (Oklahoma City, 1914), p. 138.

TABLE I  
 DISTRIBUTION OF FEDERAL INTERSTATE HIGHWAY  
 FUNDS UNDER THE ACT OF 1956 OVER THE  
 13 YEAR AUTHORIZED PERIOD  
 (IN MILLIONS)

Fiscal Year	Authorization	Fiscal Year	Authorization
1957	\$ 1,000*	1963	\$ 2,200
1958	1,700	1964	2,200
1959	2,000	1965	2,200
1960	2,200	1966	2,200
1961	2,200	1967	2,200
1962	2,200	1968	1,500
		1969	1,025

\*In addition to \$175  
 already authorized.

Source: Oklahoma State Highway Department, Oklahoma and the 1956  
 Federal Highway Act (Oklahoma City, 1956), p. 5.

In 1890 the Legislative Assembly of the Oklahoma Territory established Oklahoma State University (formally Oklahoma A. and M.) under the Morrill Act. In the same year Oklahoma established an agriculture experiment station with funds from a federal grant.<sup>13</sup> This was the first monetary grant to Oklahoma.

When Oklahoma Territory became a state in 1907 approximately 3,132,736 acres of land (valued at \$30 million) were granted to the state. The Enabling Act stated that sections 13 and 36 in every township were to be reserved for public education and sections 33 were set aside for charitable and penal institutions and public buildings. In lieu of land already incumbered the state was allowed to select approximately 1,050,000 acres of land.<sup>14</sup> Section I of Article XI of the Oklahoma Constitution pledges the state to preserve this land for these specified purposes.

Table II is a listing of all grants-in-aid that were operating in Oklahoma in 1958. A study of this table reveals two periods of rapid expansion in aid to the state. From 1935 to 1940 ten new programs began in Oklahoma. Thirteen more began from 1945 to 1950. The

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<sup>13</sup>General Information, Organization, and History, Oklahoma Agriculture Experiment Station Bulletin No. 1 (Stillwater, 1891), p. 4.

<sup>14</sup>Biennial Report of the Commissioners of the Land Office, 1956-1958, State of Oklahoma (Oklahoma City, 1958), p. 7.

TABLE II

FEDERAL GRANTS IN AID PROGRAMS, WITH FEDERAL AGENCY AND  
OKLAHOMA AGENCY ADMINISTERING THE PROGRAMS

Name of Grant	Year Established	State Agency	Year Established In Oklahoma
Am. Printing House for Blind	1879	School for the Blind	1917
Agri. Experiment Stations	1887	Okla. State University	1890
State Home of Disabled Veterans	1888	Veteran's Department	na
A. and M. Colleges	1890	Okla. State University	1890
Bureau of Indian Affairs	1903	Oklahoma Indian School	na
Agri. Extension Work	1914	Okla. State University	1914
Highways	1916	Department of Highways	1917
Cooperative Vocational Educ.	1917	Department of Education	1917
Mineral Leasing Act	1920	na	1941
Vocational Rehabilitation	1920	Department of Education	1925
Maternal and Child Health	1921	Department of Health	1945
National Forest Fund	1924	na	1930
General Health Assistance	1935	Department of Health	1936
Crippled Children	1935	Child Welfare	1935
Old Age Assistance	1935	Department of Public Welfare	1936
Child Welfare	1935	Department of Public Welfare	1936
Dependent Children	1935	Department of Public Welfare	1936
Aid to Blind	1935	Department of Education	1936
Migratory Bird Conservation	1935	Game and Fish Department	1937
Lease of Flood Control Land	1941	na	1946
State Supervision of School & Trng.	1943	Veteran's Department	1948
Tuberculosis	1944	Department of Health	1947

TABLE II (Continued)

Name of Grant	Year Established	State Agency	Year Established In Oklahoma
Cancer Control	1944	Department of Health	1947
Venereal Disease	1944	Department of Health	1947
Unemployment Compensation	1945	Department of Public Welfare	1936
School Lunch Program	1946	Department of Education	1946
Cooperative Marketing Projects	1946	Board of Agriculture	1946
Airports	1946	Local units of government	1948
Hospital Construction	1946	Department of Health	1947
Constr. of Health Research Facilities	1946	Department of Health	1958
Mental Health Activity	1946	Department of Health	1948
Heart Disease	1948	Department of Health	1950
Urban Planning	1949	na	1958
School Construction and Survey	1950	Department of Education	1950
Plans and Research	1950	Civil Defense Council	1953
Watershed and Flood Prevention	1954	na	1957
Special School Milk Program	1954	Department of Education	1955
Medical Facilities - Planning	1954	na	na
Constr. of Waste Treatment Works	1956	Department of Health	1957
Library Services	1956	Library Commission	1939
Water Pollution Control	1956	Department of Health	1956
Federal Civil Defense	1956		
Submarginal Land Program	na	na	1940
State & Private Forestry Coop.	na	na	1930
Farm Commodities Donated	na	Department of Public Welfare	1950
Removal of Surplus Agri. Commod.	na	Department of Public Welfare	1948
Maintain and Operate Schools	na	Department of Education	1947
Fish and Wildlife	na	Game and Fish Department	1909
Unemployment Trust	na	na	1957
Special Funds	na	na	1930

increase during the late 30's was the result of new programs in public welfare that were developed to fight the depression. Education and health programs dominated the new programs that began in the late 40's.

The amount of aid received by the State of Oklahoma has continually grown since 1915. In that year \$86,740 was granted to the state for education (\$56,740) and agriculture experimentation (\$30,000).<sup>15</sup> In 1917 \$115,139 was granted to the state through the United States Post Office Department for the construction of rural post roads.<sup>16</sup> By 1919 Oklahoma's share of federal aid amounted to \$190,959 and in 1921 the state received 17 per cent (\$5,623,521) of the total granted to all the states.<sup>17</sup>

Table III and Figure 1 show the general picture of federal grants to Oklahoma for selected years, 1930 to 1958 as a total, and by individual grant or groups of grants. These illustrations bring out the noticeably large increases in federal grants to Oklahoma over the years. Total grants amounted to only \$2.7 million in 1930 then jumped to \$13.8 million in 1940, to \$87 million in 1950 and to 133.6 million in 1958. In 1958 three categories of grants - public welfare, education

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<sup>15</sup>Bureau of the Census, Financial Statistics of the States, Department of Commerce (Washington, 1915), p. 72.

<sup>16</sup>Biennial Report of the State Highway Commission, 1957-58, The State of Oklahoma (Oklahoma City, 1958), Table A-20.

<sup>17</sup>Bureau of the Census, Financial Statistics of the States, 1921, p. 30.

TABLE III

FEDERAL GRANTS TO OKLAHOMA SELECTED YEARS 1930-1958  
(THOUSANDS OF DOLLARS)

Grant	1930	1940	1950	1955	1956	1957	1958
<b>Natural Resources</b>							
Agri. Experiment Sta.	90	158	269	367	465	551	567
Agri. Extension Work	209	553	911	1026	1135	1247	1272
Nat'l. Forest Fund	18	30	111	163	158	193	182
Submarginal Land Prog.	0	0	5	20	35	24	17
Coop. Marketing Proj.	0	0	57	92	99	71	70
Lease of Floor Land	0	0	103	149	164	164	182
Fish and Wildlife	0	14	0	322	215	346	307
Mineral Leasing Act	0	0	0	18	22	22	21
Other	0	9	0	19	14	174 <sup>a</sup>	2924 <sup>a</sup>
<b>Total</b>	<b>317</b>	<b>764</b>	<b>1356</b>	<b>2174</b>	<b>2307</b>	<b>4466</b>	<b>5542</b>
<b>Public Welfare</b>							
		9595					
Cripple Children			210	227	322	325	257
Child Welfare			113	136	135	150	179
Old Age Assistance			34702	37626	38121	37445	48802
Dependent Children			9524	9506	10006	10191	14166
Disabled				2111	2605	2824	4421
Other			1100	7585	10458	9930 <sup>b</sup>	8224 <sup>b</sup>
<b>Total</b>		<b>9595</b>	<b>45649</b>	<b>57191</b>	<b>61647</b>	<b>60865</b>	<b>76049</b>
<b>Health</b>							
Public Health Assistance			627	231			
Mental Health			63	32	42	55	53
Cancer Control			61	36	36	35	35
Heart Disease			47	21	21	35	36

TABLE III (Continued)

Grant	1930	1940	1950	1955	1956	1957	1958
Hospitals			1536	1571	1059	2011	1098
Maternal & Child Health			140	165	156	222	241
Other			17	0	0	76	645
<b>Total</b>			<b>2491</b>	<b>2052</b>	<b>1314</b>	<b>2534</b>	<b>2108</b>
<b>Education</b>							
School Lunch Program			1855	1469	1448	1571	1560
A. and M. Colleges	50	99	97	92	92	92	92
Vocational Education	168	521	552	535	582	681	735
School Constr. & Oper.			317	7153	1541	6578	5563
Aid to the Blind				836	848	832	1037
Vocational Rehabilitation				529	647	732	928
Other	2	19	2	396	590	625	1298
<b>Total</b>	<b>220</b>	<b>639</b>	<b>2823</b>	<b>10010</b>	<b>11848</b>	<b>11111</b>	<b>11213</b>
<b>Highways</b>	<b>2080</b>	<b>2127</b>	<b>10766</b>	<b>11216</b>	<b>14549</b>	<b>18475</b>	<b>31242</b>
<b>Employment Security</b>							
Unemployment Comp.				2199	2655	2839	3510
Other		688	0	0	0	643	297
<b>Total</b>		<b>688</b>	<b>0</b>	<b>2199</b>	<b>2655</b>	<b>3482</b>	<b>3807</b>
Airports			448	36	380	427	443
Civil Defense				88	107	102	276
Veterans	5			258	190	219	247
Other	42		5353	1847	1005	4570	1374
<b>GRAND TOTAL</b>	<b>2664</b>	<b>13813</b>	<b>67886</b>	<b>87071</b>	<b>96009</b>	<b>106151</b>	<b>133599</b>

Source: United States Treasury Department, Annual Report on the State of the Finances, for selected years.

- a. Includes emergency funds for watershed and flood prevention.
- b. Includes farm commodities donated and removal of surplus commodities.



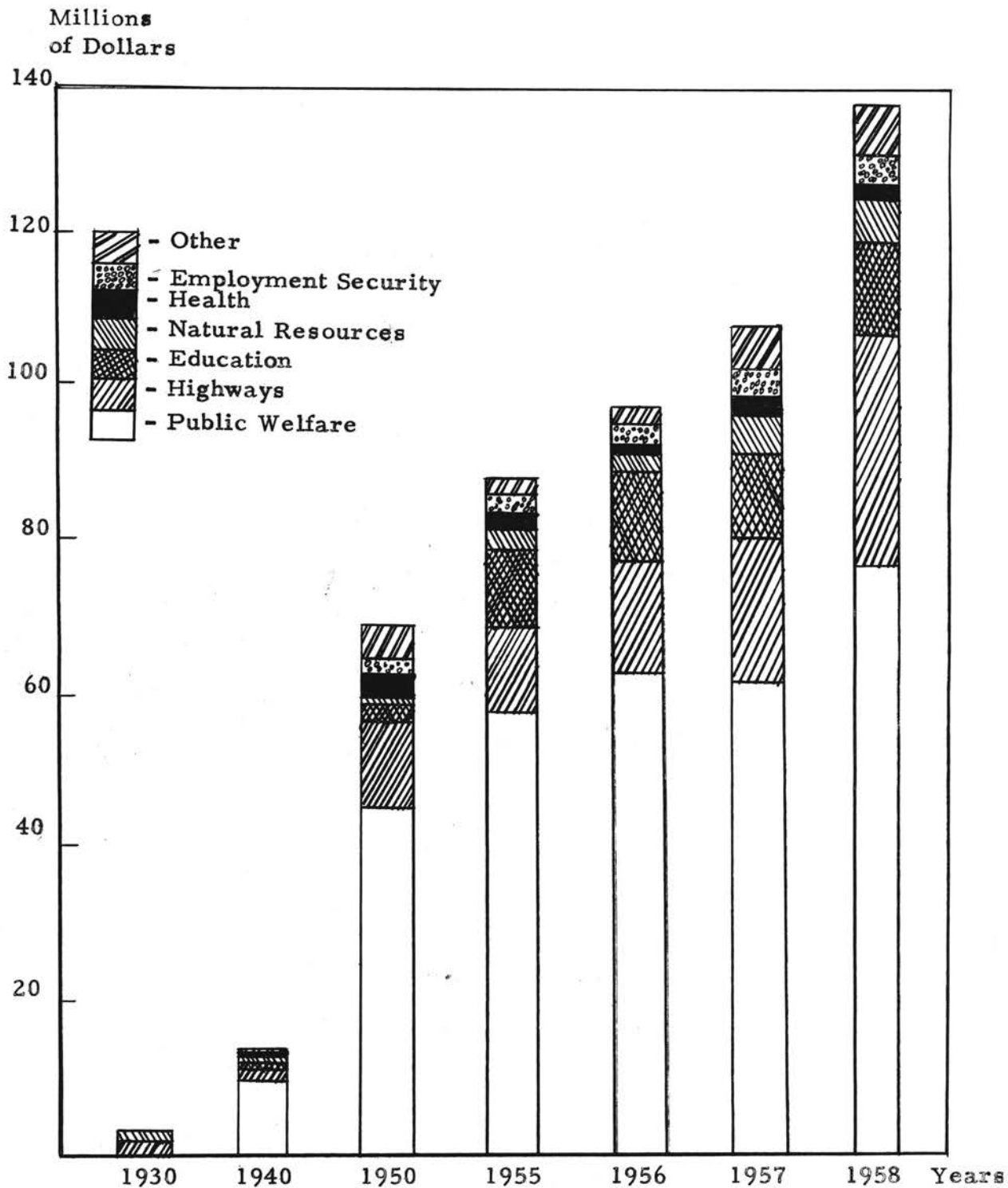


Figure 1. Federal Grants to Oklahoma, Selected Years 1930-1958.  
Source: Table II.

and highways - accounted for 88.8 per cent of the total of all federal aid to Oklahoma.

As was mentioned earlier, several new programs began in Oklahoma during the early 1940's. However the majority of the funds (Table III) were used for the already existing public welfare and highway programs. These two programs dominate the trends of aid to Oklahoma (Figure 1).

The greatest single influence on the expansion of total grants was the rise in public welfare particularly old age assistance and aid to dependent children. In 1958 the \$76 million in public welfare aid amounted to 58% of the overall increase in total federal grants since 1930. Highways and education rank second and third with 23.8 per cent and 8.6 per cent respectively. The remainder of the aid, though not large in monetary value compared to the above items, reaches into many areas of need where heretofore states have not been able to provide adequate programs.

It should be remembered that the amounts shown in Table III do not necessarily correspond with the flow of actual program activities in the state. Since federal funds are made available in whole or in part on three different bases, advance payment of estimated expenditures for a specified period, current payments made approximately when expenses are incurred, or payment in reimbursement of program

costs that have already been met from state funds,<sup>18</sup> the figures shown in Table III may be the summation or other combinations of these three means of payment. For example, highway construction in 1958 could have been the result of funds paid in 1957, plus 1958 funds plus funds that were not paid until 1959. Thus the 1958 figure in Table III would not express actual construction in that year.

Another factor in Table III that might be misleading is the trend in aid to Oklahoma. The federal aid trend of concentrated expenditures in welfare and highways in Oklahoma is not necessarily an accurate indication of the overall federal-state-local expenditures for programs receiving federal aid. In many cases state and local expenditures for a program are more accelerated in other programs than indicated by the federal aid trend. For example, in 1958 the aid trend indicated that Oklahoma was spending more (as a per cent of the total expenditures for said program) for highways and welfare than other programs. Actually 42% of the total expenditures for welfare in Oklahoma came from the federal government, and 48% came from state funds. For highways 20.7 per cent was from grants, 79.3 per cent from the state. In Oklahoma 8.8 per cent of expenditures

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<sup>18</sup>Temporary Commission on the Fiscal Affairs of State Government, A Program for Continued Progress in Fiscal Management (New York, 1955), Vol. I, p. 78.

for education came from federal aid and 91.2 per cent from the state. In the case of health and hospitals federal aid accounted for 7.6 per cent of the total expenditures with the remaining 92.4 per cent coming from the state.

These data reveal that Oklahoma is spending more funds (more funds meaning more of that total expenditures for the particular program under consideration) for education and health than highways or public welfare. Yet a study of federal aid alone indicates just the opposite.<sup>19</sup>

#### How Grant-in-Aid Programs Work

A federal grant-in-aid program begins with an act of Congress. A congressional act designates the purpose of the grant, establishes the necessary administrative procedure for putting the act into practice, authorizes an annual appropriation, and states the manner in which the funds are to be apportioned among the states.<sup>20</sup> For example, we might consider the Federal Highway Act of 1956. The purpose of this act was to construct interstate highways and regular

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<sup>19</sup>These percentages are based on Table III and Oklahoma expenditure from: Compendium of State Government Finance in 1958, p. 22.

<sup>20</sup>Howard W. Hallman, Federal Grant-in-Aid in Kansas, Citizen's Pamphlet Series No. 10 (Lawrence, 1959), p. 13.

primary and secondary roads within the states. Under the act, \$125,000,000 was authorized for 1957, \$850,000,000 for 1958, and \$875,000,000 for 1959. These sums were to be available for expenditures as follows: (a) 45% for projects on federal-aid primary systems, (b) 30% for projects on federal-aid secondary systems, and (c) 25% for projects on extensions of these systems within urban areas. These funds were to be apportioned among the states as follows:

(A) Funds for projects on the federal-aid primary system were to be apportioned  $3\frac{3}{4}$  per cent for administrative expenses and research,  $32\frac{1}{12}$  per cent divided among the states according to the area of the states,  $32\frac{1}{12}$  per cent divided according to population of the states and  $32\frac{1}{12}$  per cent divided among the states according to the mileage of highways in each state.

(B) Funds for projects on the secondary system were to be apportioned among the states with  $\frac{1}{3}$  based on the total area of the state,  $\frac{1}{3}$  based on rural area, and  $\frac{1}{3}$  based on rural delivery and star routes.

(C) Funds for projects on urban highway projects were to be apportioned among the states in the ratio which the population in municipalities and other urban places of 5,000 or more in each state bears to the total population in such places, in all the states.<sup>21</sup>

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<sup>21</sup>Rebecca L. Natz, Federal Grants-in-Aid to States, The Council of State Government (Chicago, 1956), pp. 34-39.

The system of apportionment mentioned above combines several of the basic apportionment methods used by Congress to achieve the objectives of grants. These objectives (see page one) of reducing inequality, establishing minimum standards and attempting control of cyclical behavior result in congressional use of basic apportionment methods. They are: population, area, special need, matching per capita income, and uniform amount per state. The first three of these bases of allocation were used in the Highway Act of 1956. The matching method calls for the federal grants to match the amount spent by the state for a given purpose. An example of this would be hospital or airport construction. When the per capita income method is used, the funds are apportioned among the states in such a way that states with the lower per capita incomes receive a larger share of the funds. This method is used in many of the public welfare and health grants. The uniform amount per state or lump sum method results in grants of the same amount to each state. The A. and M. College grant awards funds on an uniform amount method. These methods add flexibility to "grant making" and enables Congress to better achieve the objectives that bring about grants.<sup>22</sup>

When Congress completes the act and the President approves it a federal agency is given supervisory powers over the program

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<sup>22</sup>Hallman, p. 16 and 17.

which includes power to issue rules and regulations and audit expenditures.<sup>23</sup>

The next step in the process is the responsibility of the states. It may not be necessary for a state legislature to enact new legislation, but it is usually necessary to get certain administrative processes established at the state level. Such action by a state must be approved by the appropriate federal agency before any funds are released. After federal approval, the state must produce the necessary matching funds. When this is done the federal agency releases the federal funds to the state agency for the carrying on of the specified program. Grants are subject to withdrawal if the specified standards and conditions are not maintained. This operational procedure just discussed is presented schematically in Figure 2.

#### Summary

In this chapter a brief sketch of federal grants-in-aid has been presented. In order to show the development of grants, the history of the highway grant-in-aid program was presented. In this presentation the constitutional provisions that brought about federal aid for highways were pointed out. The late 19th Century transition from boats and locomotives created a demand for good roads. First

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<sup>23</sup>Committee on Federal Grants-in-Aid, Federal Grants-in-Aid (The Council of State Government, 1949), p. 3.

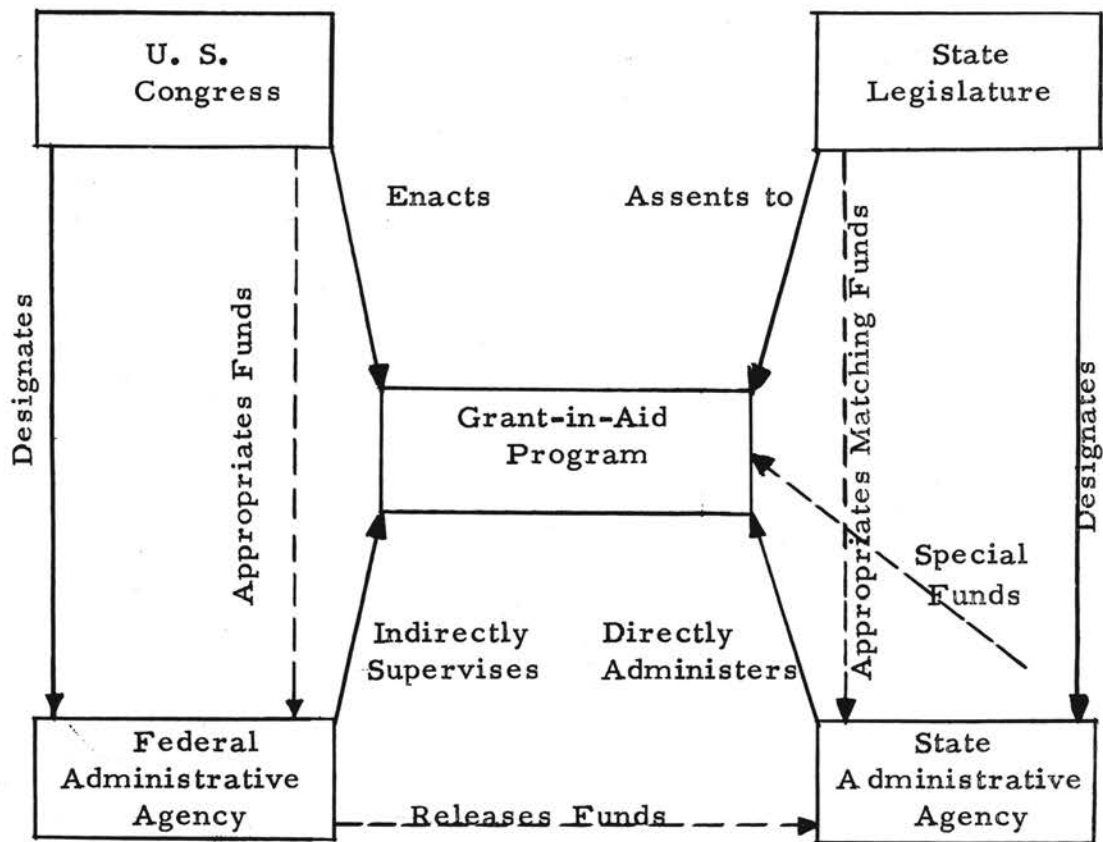


Figure 2. Diagram of the Administrative Procedure of Federal Grants-in-Aid. Source: Howard W. Hillman, Federal Grants-in-Aid in Kansas, Citizens Pamphlet Series No. 10 (Lawrence, 1957), p. 16.



action for road research and construction was administered under the Department of Agriculture and the Post Office Department.

Beginning in 1916 Congress passed a series of highway acts authorizing construction on a state level with federal funds matched by the states. Each new act authorized more funds than before and added in some way or other to federal control and regulation. The greatest boost to highway construction came in 1956 when Congress authorized \$24,825,000,000 for a 41,000 miles system of interstate highways.

The second part of the chapter was a review of federal aid development in Oklahoma. The first aid to Oklahoma was land granted for education. Federal monetary grants-in-aid to Oklahoma increased from \$86,750 in 1915 to \$133,599,000 in 1958. The majority of these funds have gone for public welfare and highway construction.

The final section of the chapter was an explanation of how grant-in-aid programs operate. The 1956 Highway Act was used to show how the various parts of an aid program are carried out.

## CHAPTER III

### FEDERAL GRANTS-IN-AID AS A SOURCE OF REVENUE IN OKLAHOMA

#### Introduction

In the first two chapters of this study the purpose of grants, their method of operation, and how they have developed has been discussed. Also the development and present condition of federal aid to Oklahoma has been reviewed.

The purpose of this chapter is to further our study of federal aid by studying the grant as a source of revenue for Oklahoma in order to determine its importance to the state. In order to do this it was necessary to analyze the total revenue of Oklahoma so that a comparison between aid and other sources of revenue could be made. As a further part of the study, Oklahoma revenue was compared to that of other states. Finally, the "cost" of grants to the states was computed and was weighed against aid "benefits". The picture drawn by this chapter is one of importance - the importance of federal aid as a source of state revenue.

The Importance of Federal Aid  
As a Source of Revenue

In 1958 the total revenue receipts for Oklahoma amounted to \$410,070,000.<sup>1</sup> This sum came from more than 250 different sources.<sup>2</sup> Yet 76.5 per cent came from only six sources as shown in Table IV.

TABLE IV  
OKLAHOMA REVENUE BY MAJOR SOURCES FOR 1958

Source	Amount	Per Cent of Total
Grants-in-Aid	\$ 115,662,000	28.2
Motor Fuel Tax	57,134,000	13.9
Sales Tax	50,673,000	12.4
Gross Production Tax	34,113,000	8.3
Motor Vehicle License	31,943,000	7.8
Income Tax (personal and corporation)	24,338,000	5.9
Others	96,198,000	23.5
	\$ 410,070,000	100.00%

Source: U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1958 (Washington, 1958), p. 9.

<sup>1</sup>U. S. Department of Commerce, Bureau of the Census, Compendium of State Government Finances in 1958 (Washington, 1958), p. 9.

<sup>2</sup>Annual Report of the State Treasurer of the State of Oklahoma, (1958), Schedule B, p. 17.

State revenue from the federal government amounted to over one-fourth (1/4) the total in 1958. The absolute amount was two times larger than the state's leading internal source of revenue. For the past decade federal aid to Oklahoma has doubled the second leading source of revenue. Figure 3 reveals that federal grants to Oklahoma have exceeded 20 per cent of the total state revenue since 1943, (1945 and 1946 were exceptions with the percentages amounting to 19 and 19.5 respectively). After grants-in-aid the second most important revenue to the state of Oklahoma has varied since 1943 between motor fuel tax and sales tax. In the few years after World War II sales tax revenue as a per cent of total revenue increased due to the lifting of controls on consumer goods. Since that time Oklahoman's have paid to the state treasurer more dollars through the gasoline tax revenue than through any other internal source of revenue. However the amount of gasoline tax revenue has been on an average of 10 per cent (of total revenue) less than revenue from grants-in-aid. From these data presented above, it is readily seen that the federal grant-in-aid constitutes a large portion of Oklahoma's revenue.

Oklahoma's revenue in 1958 was not enough to balance expenses and without federal aid Oklahoma would have had to raise \$82,014,000 more to equal her revenue. Considering the data presented here, it is evident that federal aid is a very important source of revenue for Oklahoma.

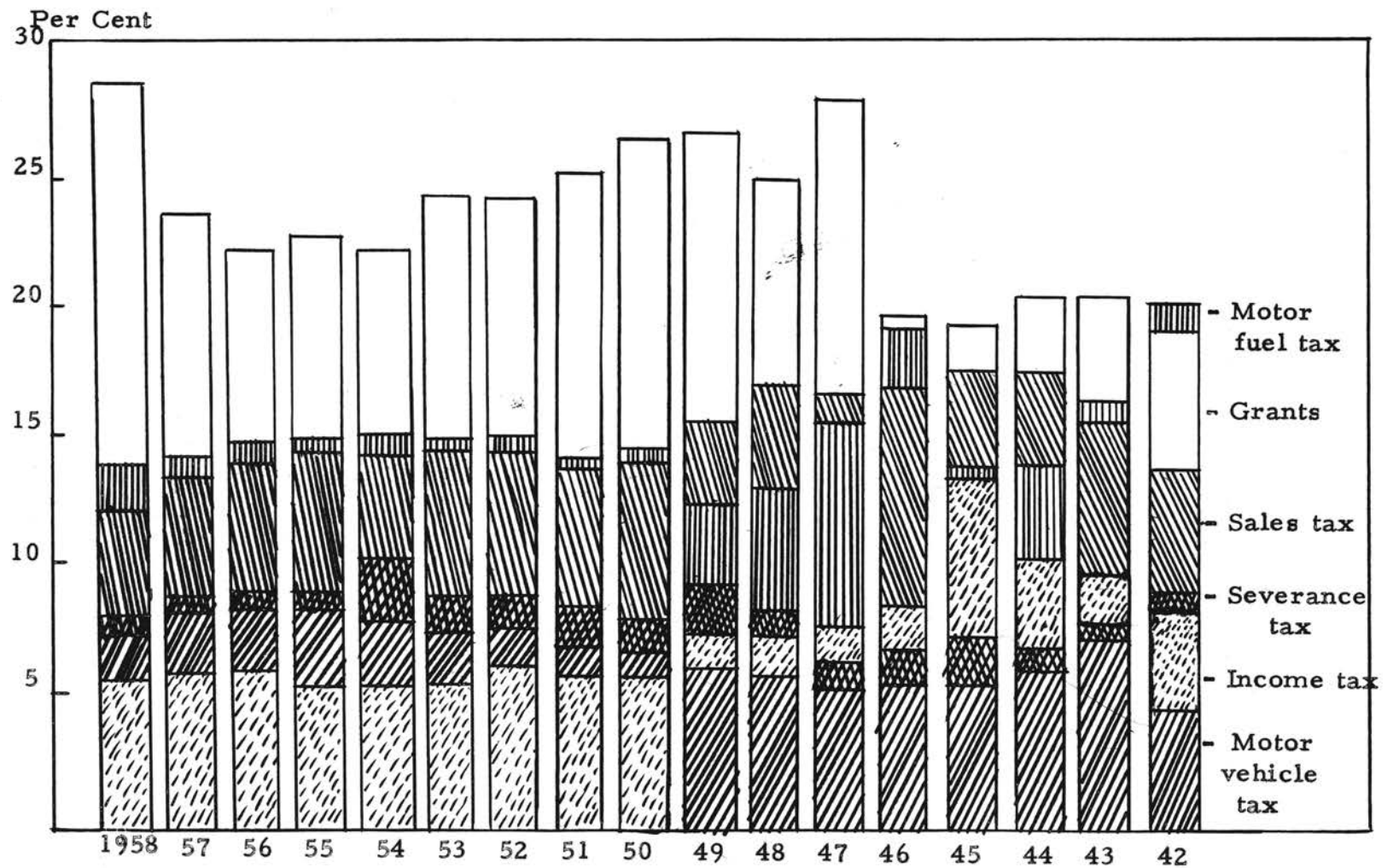


Figure 3. Per Cent of State Revenue From Major Sources, 1942-1958.

Source: U. S. Department of Commerce, Compendium of State Government Finances for selected years.

The questions now arise, is this situation peculiar to Oklahoma, to a selected area of the United States, or is it the case with most states? In seeking the answer to the question, is Oklahoma the only state receiving a large part of its revenue from federal aid, let us study Figure 4. State revenue (as a per cent of total state revenue) from federal aid ranged from 12.1 per cent in Indiana to 44.8 per cent in Wyoming in 1958. Oklahoma received 28.1 per cent of its revenue from federal aid and ranked 11th among the states with ten states receiving a larger portion of their revenue from federal aid grants. The United States average of state revenue from federal aid was 20.25 per cent in 1958. Note that Oklahoma exceeded the average but not enough to be considered out of the majority of the states. In answer to the first question we find that Oklahoma is one of many states dependent upon federal aid as a source of revenue.

The solution to the second question, does federal aid go to definite areas of the nation, can be partially found by taking the data in Figure 4 and grouping it into seven percentage groups as presented in Figure 5. This grouping by per cent of state revenue from federal aid reveals only two noticeable concentrations of states receiving equivalent federal aid. Six of the eight states receiving the lowest percentage are located on the east coast while four of the eight states receiving from 25.1 to 30 per cent of state revenue from federal aid are located in the southwest which includes Oklahoma.

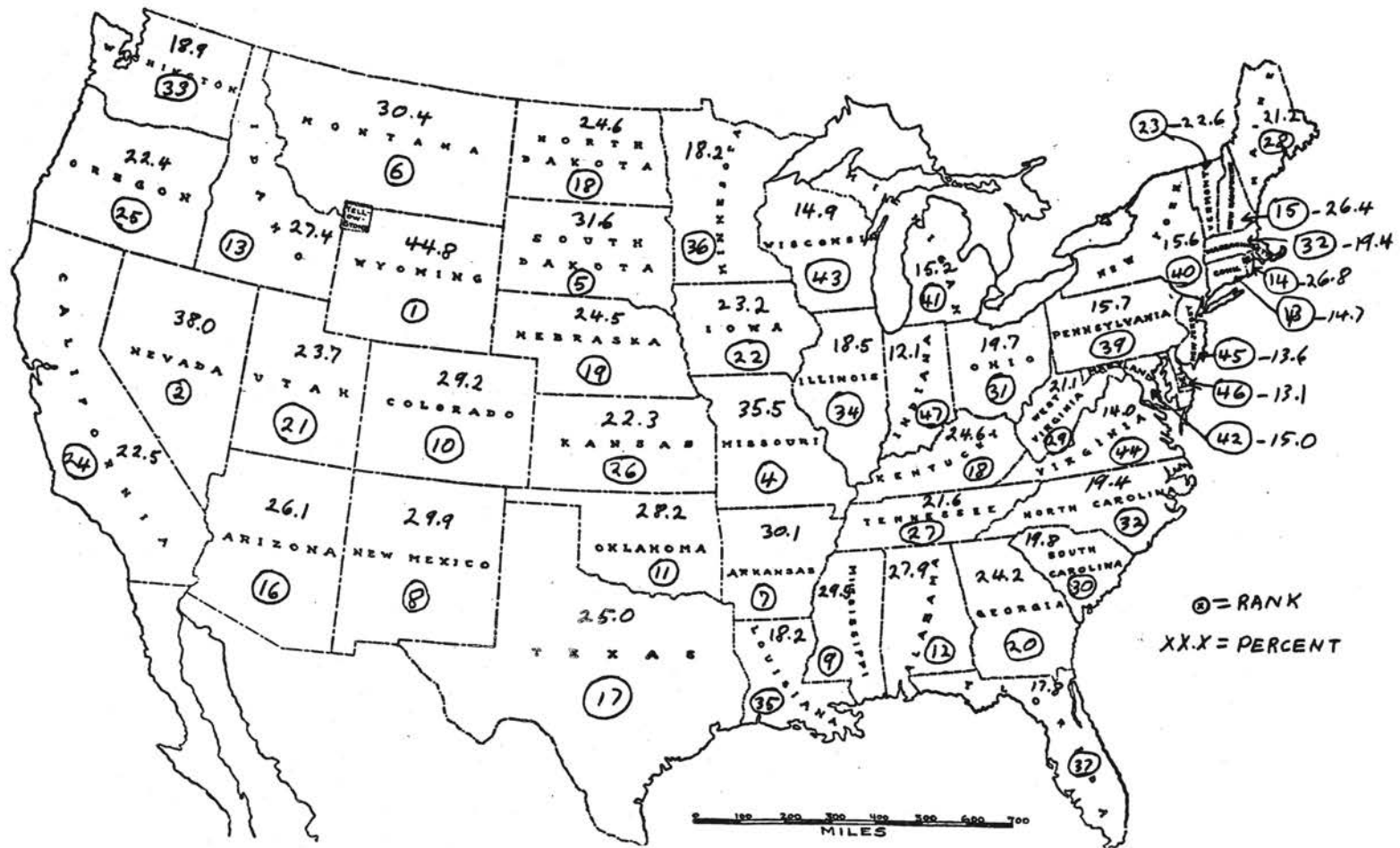


Figure 4. Rank of States According to Per Cent of State Revenue Received From The Federal Government and Per Cent Received in 1958. Source: Compendium of State Government Finance, 1958.

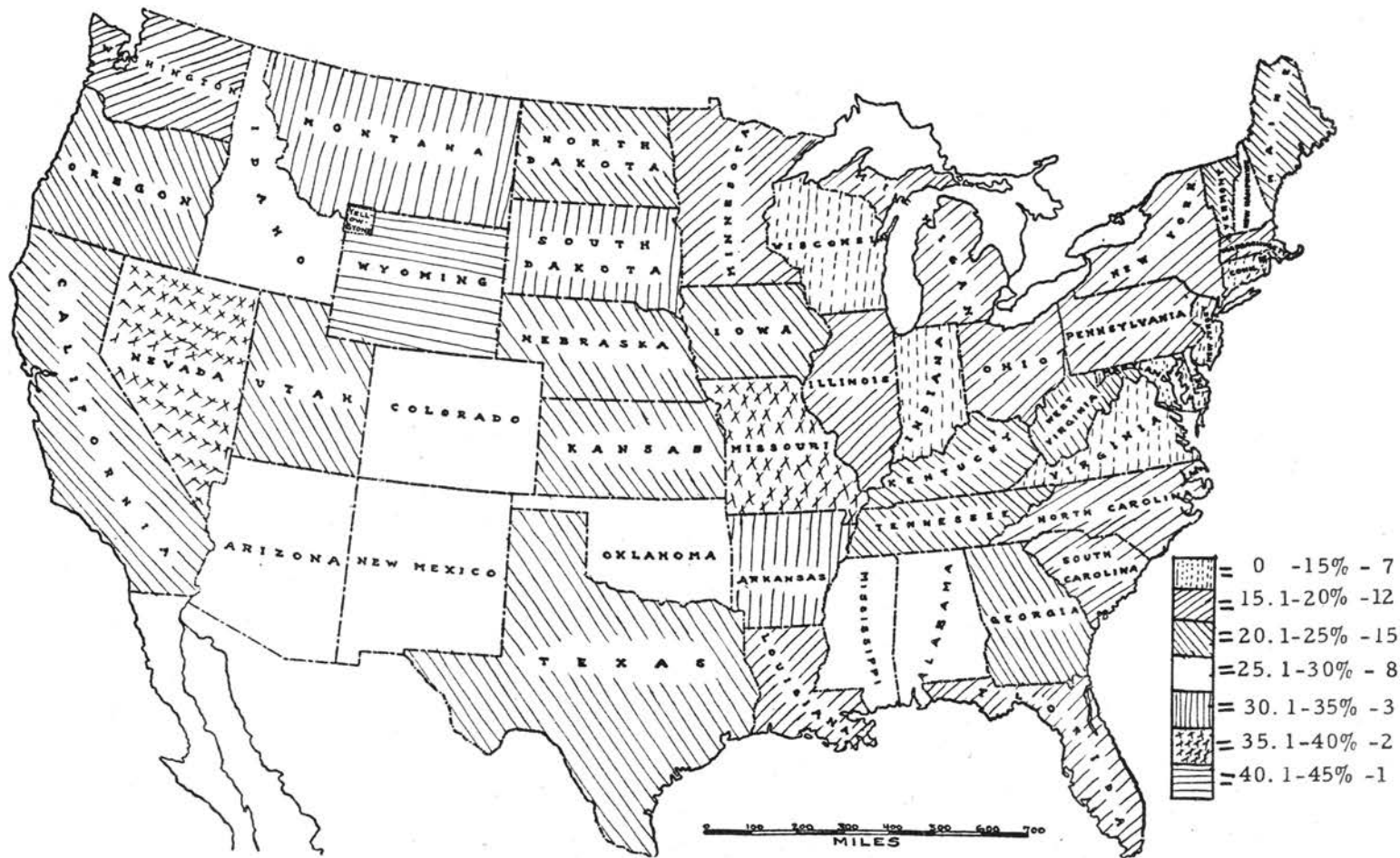


Figure 5. Per Cent of State Revenue Received From The Federal Government in 1958. Source: Figure 4.



The other groups seem to show no clear-cut geographical pattern. This presentation gives an indication that federal aid may be distributed throughout the nation in some definite manner. However it is not sufficient proof of such definite groups existing nor does it reveal any intentional grouping on a geographical basis.

Table V lists income payments, general revenue and federal aid on a per capita basis. Notice that only 28 of the 48 states are listed. It was unnecessary to use all the states because all that is of interest at this time are the extreme conditions. The highest and lowest 14 states were selected to show these conditions. It was necessary to have 14 states in each group so Oklahoma could be included for comparative purposes. The states are arranged in order of decreasing amounts of state income payments per capita. This sequence brings out rather sharply the irregular pattern of federal aid per capita. Ten of the top 14 states in per capita income are located in the northeastern part of the nation. Yet, only one of these states (Massachusetts) ranks in the upper 14 on the basis of federal aid per capita. Of the 14 states earning the lowest income per capita, 11 of them are in the southeast and mid-south. All but five of these rank in the upper 14 states of federal aid per capita. This distribution becomes more evident when just the southern states are considered. Only two of the southern states rank below the top 14 in federal aid per capita.

TABLE V

GENERAL REVENUE PER CAPITA, FEDERAL AID PER CAPITA, RATIO OF  
 FEDERAL AID TO GENERAL REVENUE ON A PER CAPITA  
 BASIS FOR UPPER 14 STATES AND LOWER 14 STATES

State	Income Payment Per Capita	General Revenue Per Capita	Federal Aid Per Capita	Ratio Federal Aid to Gen. Rev. (Per Capita)
Connecticut	\$ 2817	\$ 128.2	\$ 19.9	15.9%
Delaware	2760	182.0	23.6	13.0
New York	2585	120.5	18.9	15.8
Nevada	2569	244.0	78.6	32.2
California	2559	170.0	38.0	22.4
New Jersey	2521	79.3	10.8	13.6
Illinois	2435	98.6	18.3	18.6
Massachusetts	2394	123.5	23.9	19.4
Maryland	2221	117.0	17.6	15.0
Ohio	2184	107.2	21.1	19.7
Washington	2160	191.0	36.1	18.9
Pennsylvania	2127	108.5	16.9	15.6
Michigan	2099	141.0	21.4	15.2
Wyoming	2088	269.0	120.5	44.8
Oklahoma	1740	180.0	50.6	28.1
Maine	1704	126.7	27.0	21.3
Idaho	1701	123.2	36.4	29.5
Virginia	1674	93.8	13.3	14.2
Louisiana	1576	194.8	37.5	19.3
W. Virginia	1509	113.2	23.9	21.1
Georgia	1487	121.9	29.7	22.9
Tennessee	1439	108.5	23.4	21.8

TABLE V (Continued)

State	Income Payment Per Capita	General Revenue Per Capita	Federal Aid Per Capita	Ratio Federal Aid to Gen. Rev. (Per Capita)
Kentucky	\$ 1397	\$ 100.0	\$ 24.6	24.6%
N. Carolina	1384	115.6	22.4	19.4
Alabama	1359	114.0	32.7	28.7
Arkansas	1228	126.5	38.2	30.1
S. Carolina	1218	107.0	21.6	20.2
Mississippi	1053	120.5	35.3	29.3
U. S.	2057	125.0	25.7	20.25

Source: Survey of Current Business, August, 1959, p. 13.  
Compendium of State Government Finance, 1958.

If we now compare Figure 5 with the information just presented in Table V, the data of Figure 5 becomes more meaningful. Considering the same two geographical areas, the East and South, none of the eastern states ranking in the upper per capita income group fall in the upper group of federal aid to general revenue per capita. In the southern states only three rank below the upper 14 states. Thus by a combined analysis of income payments per capita and per cent of state revenue received from federal aid, a very definite sectional distribution of federal aid can be noted.

The third question, is federal aid an important source of revenue for most states, was indirectly answered in the discussion of the first two questions. A brief review of Figures 4 and 5 indicates that in 1958 thirty of the forty-eight states received in excess of twenty per cent of their total state revenue from federal aid. The importance of federal aid to the states is evident.

In answering the series of questions presented earlier, data were presented to show that Oklahoma as well as most of the states depend very heavily on the federal grant-in-aid as a means of financing state activities. These aid funds are not just additional funds to the states. They constitute in a number of cases the greater portion of a state's investment in a particular program. A number of the services now offered by a state to her people are the result of federal aid and in many cases depend on federal grants for their continuation.

Let us now consider one particular service or program so that we might better understand this dependency. In order to determine a state's dependency on federal aid to continue a program at its present rate, the Oklahoma highway program was studied. This dependency was determined by removing federal aid to the state and analyzing the results of such action. Certain assumptions became necessary before such an analysis was made. First, it was assumed that all federal aid to the state of Oklahoma for highway use had been removed and at the same time the federal gasoline tax withdrawn. Since the 1956 Federal Highway Act added one cent to the gasoline tax to support the program, it was reasonable to assume that removal of the highway act would also remove the tax. On this basis it was further assumed that removal of all aid to highways would result in the removal of all the federal gasoline tax. The second assumption was that Oklahoma will increase its gasoline tax by the amount of the federal reduction so that the cost of gasoline to the consumer remains unchanged. This, then, gives the state some revenue so that it can attempt to maintain the same level of highway construction and maintenance.

Within these conditions, the level at which state highway construction programs could exist without searching for additional sources of revenue is expressed in Table VII.

TABLE VI

PROVISIONS GOVERNING THE DISPOSITION OF STATE  
MOTOR-FUEL TAX RECEIPTS IN OKLAHOMA  
(TAX 6.5¢ ON ALL MOTOR FUEL)

Fund or Agency	Proportion	Amount (Mills)	Object of Expenditure
State Tax Com. Fund	3%	1.2	For collection and administration of tax.
State Highway Construction & Maintenance Fund	70%	28.0	For construction and maintenance of state highways.
Incorporated Cities and Towns	5%	2.0	Construction & maintenance of streets & alleys.
County Highway Funds	22%	8.8	Construction & maintenance of county or township highways and debt service of county highway bonds.
SUB TOTAL	100%	40.0	
State Highway Construction and Maintenance Fund	40%	10.0	For farm to market roads.
County Highway Fund	20%	5.0	Construction & maintenance of county & township highways & permanent bridges on mail routes & school district bus routes.
County Special Fund	40%	10.0	Construction on bridges & culverts on school bus & mail routes & resurfacing these routes.
SUB TOTAL	100%	25.0	
TOTAL	100%	65.0	

Source: Bureau of Public Roads: Highway Statistics 1957, p. 32.

TABLE VII  
 ASSUMED HIGHWAY REVENUE IN OKLAHOMA  
 WITHOUT FEDERAL AID

Year	Gallons* of Gas (1000)	Tax Rate (Mills)	Assumed Revenue (1000)	Actual** Revenue with Aid (1000)	Excess (1000)
1956	789,003	58.0	\$ 45,700	\$ 30,600	\$ 15,100
1957	798,839	58.0	46,400	54,700	(-) 8,300
1958	n. a.	58.0		66,200	

\*Bureau of Public Roads, Highway Statistics, 1957, p. 2.

\*\*Total of federal and state funds for highway construction. Bureau of Public Roads, Highway Statistics Summary, 1955, pp. 144-146.

To arrive at a level of funds available to the state for highway finance under the above conditions, first the number of gallons of gasoline sold in Oklahoma was determined. Second the state tax rate was determined as being equal to the three cents of new tax plus the 2.8¢ of the present 6.5¢ state tax rate (see Table VI) which is allotted for state highway construction and maintenance. None of the other rates listed in Table VI are used in figuring the new rate because they are not used directly for state highway construction and maintenance which is the only phase of highway work considered in this example.

In 1956 a 5.8¢ tax rate for state construction and maintenance would have raised \$45,700,000 for state highway use. This would have exceeded the actual total of all federal aid programs and state revenue by \$15,100,000 (Table VII). However it would have resulted in a \$8,300,000 loss of highway funds in 1957. If 1958 gasoline figures were available chances are the deficit would be even larger because actual funds increased some \$11 million and gasoline sales surely would not have increased enough to affect this increase. It is assumed this trend would continue due to increased expenditures for federal interstate roads.

Under the conditions set forth in this example, if federal aid were removed Oklahoma would have to find new sources of state highway revenue or reduce the current highway program expenditures by



approximately \$10 million. This could be stated in another way, and that is that the state of Oklahoma is dependent on the federal grant-in-aid program for approximately \$10 million a year to maintain her present road building program.

The grant-in-aid device that was developed to make new services available to the public and improve old ones has now become a critical part of financing state governments.

#### The "Cost" of Federal Grants-in-Aid to Oklahoma

In the preceding section the importance of federal aid to Oklahoma as a source of revenue was considered from the standpoint of the aid received compared to total state revenue. This analysis did not consider what these grants "cost" the state. In the following section aid to Oklahoma is considered from the standpoint of cost, that is, how much the state "contributed" in taxes to finance federal aid.

Several factors limit this section to just a relative measure of cost, but with such factors understood at the beginning meaningful conclusions can be drawn.

The complexity of the tax structure in the United States makes it impossible to determine exactly how much in taxes each state contributes to individual federal expenditures. "Grants-in-aid, unlike shared revenue, are not usually linked to particular taxes but are paid

from general revenue funds."<sup>3</sup> Thus, there is no way of determining just how much Oklahoma or any other state pays in taxes to support the federal aid programs. In the discussion that follows relative measures are expressed based on assumed tax contributions. These assumed contributions, expressed in Tables VIII and IX, were determined in the following manner. In Table VIII assumed contributions were based on internal revenue collections.<sup>4</sup> The per cent of assumed contributions was based on the assumption that what a state contributes to a particular federal program is proportional to the state's share of total internal revenue collections. For example, in 1958 Oklahoma received \$116 million in federal aid. This amounted to 2.6% of total federal aid to all states. In the same year \$817 million of internal revenue taxes were collected in Oklahoma. This amounted to 1.03% of the total collections in all states. Let us then assume that Oklahoma paid proportionally 1.03% of the cost of all federal programs. Since the total grant in aid program amounted to \$4,461 million, then Oklahoma "contributed" \$46 million or 1.03% of this \$4,461 million. It must be understood that this is not intended to be an accurate measure of actual cost, but is intended merely to establish a means

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<sup>3</sup>J. F. Due, Government Finance (Homewood, Illinois, 1954), p. 417.

<sup>4</sup>See Howard G. Schaller, p. 288. He distributes the cost, by state, in proportion to the state distribution of federal taxes.

TABLE VIII

GRANTS RECEIVED, INTERNAL REVENUE COLLECTIONS, ASSUMED  
CONTRIBUTION, GRANTS AS A PER CENT OF ASSUMED  
CONTRIBUTION FOR ALL STATES IN 1958  
(MILLIONS OF DOLLARS)

States	Grants Received	Per Cent of Grants Received	Internal Revenue Collections	Per Cent of Assumed Contribution	Assumed Contribution	Per Cent Grant is of Assumed Contribution
Wyoming	38	0.85	72	0.09	4.0	945 <sup>950</sup>
Mississippi	78	1.75	176	0.22	9.8	796
New Mexico	64	1.43	157	0.20	8.9	715
Arkansas	67	1.50	186	0.23	10.3	653
So. Dakota	30	0.67	88	0.11	4.9	609
No. Dakota	29	0.65	88	0.11	4.9	591
Montana	32	0.72	139	0.17	7.6	423
Alabama	105	2.35	496	0.62	27.6	379
Arizona	48	1.08	235	0.29	12.9	373
Nevada	21	0.47	110	0.14	6.3	336
So. Carolina	52	1.17	288	0.36	16.1	325
Idaho	24	0.54	135	0.17	7.6	318
Louisiana	117	2.62	692	0.86	38.4	305
Vermont	13	0.29	77	0.10	4.5	290
Utah	29	0.65	200	0.25	10.1	260
Oklahoma	116	2.60	817	1.03	46.0	252
Oregon	66	1.48	472	0.59	26.3	251
W. Virginia	47	1.05	335	0.42	18.7	250
Iowa	86	1.93	625	0.78	34.8	247
Maine	26	0.58	191	0.24	10.7	242
Georgia	113	2.53	846	1.06	47.4	239
Tennessee	81	1.82	622	0.78	34.8	233

TABLE VIII (Continued)

States	Grants Received	Per Cent of Grants Received	Internal Revenue Collections	Per Cent of Assumed Contribution	Assumed Contribution	Per Cent Grant is of Assumed Contribution
Washington	100	2.24	932	1.06	47.4	211
New Hampshire	17	0.38	149	0.19	8.5	200
Kansas	58	1.30	546	0.68	30.3	191
Colorado	84	1.88	905	1.03	46.0	183
Texas	266	5.95	2697	3.38	141.0	176
Florida	103	2.31	1097	1.37	59.0	168
Rhode Island	28	0.63	313	0.39	17.4	161
Missouri	167	3.74	1892	2.36	105.5	158
California	547	12.25	6754	8.46	377.0	145
Nebraska	36	0.81	444	0.56	25.0	145
Indiana	61	1.37	1798	2.24	100.0	137
Minnesota	88	1.97	1246	1.56	79.7	126
No. Carolina	102	2.28	1858	2.32	103.8	98.3
Massachusetts	116	2.60	2195	2.74	122.5	95.0
Wisconsin	74	1.66	1462	1.83	81.8	90.7
Kentucky	76	1.70	1536	1.92	85.9	88.5
Virginia	52	1.07	1240	1.55	69.3	69.0
Ohio	197	4.42	5356	6.69	298.0	66.0
Pennsylvania	188	4.21	5805	7.25	323.0	58.0
Connecticut	44	0.98	1398	1.75	78.3	56.0
Illinois	181	4.06	6478	8.10	261.8	50.2
Maryland	52	1.17	1871	2.34	104.5	50.0
Michigan	169	3.79	6198	7.75	346.0	48.9
New Jersey	62	1.39	2420	3.02	134.8	46.0
New York	304	6.81	15348	19.18	857.5	35.6
Delaware	11	0.25	785	0.98	43.7	25.5
U. S.	4461	100.00	79988	100.00	4461.0	

Source: Grants: Compendium of State Finance.

Internal Revenue: Annual Report of Commissioner of Internal Revenue.

TABLE IX

GRANTS RECEIVED, PERSONAL INCOME, ASSUMED CONTRIBUTIONS  
AND GRANT AS A PER CENT OF ASSUMED CONTRIBUTION FOR  
ALL STATES IN 1958 (MILLIONS OF DOLLARS)

States	Grants Received	Per Cent of Grants Received	Personal Income	Per Cent of Assumed Contribution	Assumed Contribution	Per Cent Grant is of Assumed Contribution
Wyoming	38	0.85	668	0.19	8.5	447
New Mexico	64	1.43	1548	0.44	19.6	325
Mississippi	78	1.75	2320	0.65	29.0	269
Nevada	21	0.47	686	0.19	8.5	248
Arkansas	67	1.50	2168	0.61	27.2	246
Oklahoma	116	2.60	3975	1.12	50.0	232
No. Dakota	29	0.65	1103	0.31	13.8	210
So. Dakota	30	0.67	1147	0.32	14.3	209
Montana	32	0.72	1327	0.37	16.5	195
Colorado	84	1.88	3505	0.98	43.8	192
Alabama	105	2.35	4364	1.23	55.0	191
Louisiana	117	2.62	4901	1.38	61.6	190
Arizona	48	1.08	2023	0.57	25.4	189
Idaho	24	0.54	1126	0.32	14.3	169
Vermont	13	0.29	649	0.18	8.1	161
Georgia	113	2.53	5678	1.60	71.5	158
Missouri	167	3.74	8702	2.44	109.0	153
Utah	29	0.65	1516	0.43	19.2	151
Oregon	66	1.48	3556	1.00	4.6	148
Wisconsin	74	1.66	7624	2.14	95.6	145
So. Carolina	52	1.17	2929	0.82	36.6	143
Kentucky	76	1.70	4303	1.21	54.0	140
Washington	100	2.24	5982	1.69	75.5	134
Rhode Island	28	0.63	1720	0.48	21.4	131

TABLE IX (Continued)

States	Grants Received	Per Cent of Grants Received	Personal Income	Per Cent of Assumed Contribution	Assumed Contribution	Per Cent Grant is of Assumed Contribution
Iowa	86	1.93	5258	1.48	66.1	130
No. Carolina	102	2.28	6297	1.77	79.0	129
Tennessee	81	1.82	4992	1.41	63.0	129
Maine	26	0.58	1622	0.46	22.5	126
W. Virginia	47	1.05	2972	0.83	37.0	126
New Hampshire	17	0.38	1101	0.31	13.8	123
Texas	266	5.95	17001	4.87	217.3	122
California	547	12.25	36962	10.13	451.0	121
Kansas	58	1.30	4234	1.19	53.1	109
Minnesota	88	1.97	6468	1.82	81.3	108
Nebraska	36	0.81	2759	0.77	34.4	105
Florida	103	2.31	8334	2.34	104.5	98.0
Michigan	169	3.79	16507	4.64	207.0	81.6
Massachusetts	116	2.60	11641	3.26	146.5	79.8
Ohio	197	4.42	20409	5.74	256.0	76.9
Delaware	11	0.25	1253	0.33	15.6	71.5
Pennsylvania	188	4.21	23617	6.63	296.5	63.5
Maryland	52	1.17	6566	1.85	82.6	63.3
Illinois	181	4.06	24076	6.77	302.0	60.1
Virginia	52	1.07	6586	1.85	82.6	58.0
New York	304	6.81	41954	11.80	527.0	57.6
Connecticut	44	0.98	6524	1.83	81.7	53.5
Indiana	61	1.37	9118	2.56	104.2	53.5
New Jersey	62	1.39	14494	1.07	181.5	34.2
U. S.	4461	100.00	356,328	100.00	4461.0	

Source: Grants: Compendium of State Government Finances, 1958.

Income: Survey of Current Business, August, 1959.

of comparing Oklahoma with other states and comparing Oklahoma's aid received with taxes "contributed" over a selected time period. Table IX was developed in the same manner as Table VIII except personal income was used as a "contribution" base. Note that in both tables the states are listed in descending order of ratio of grant to assumed contribution. This method of listing was used because it allows better comparison of "benefits" among the states.

The relationship of grants received to assumed tax contributions is given in the right hand column of Table VIII and Table IX. Let us consider first Table VIII. The range is very great. In 1958 Wyoming received \$9.45 in aid for each dollar of tax "contribution" paid as contrasted with Delaware which received only 25.5 cents for each dollar "contributed".

Based on internal revenue collections, Oklahoma ranks 16th in terms of the ratio of grants received to assumed contributions. In 1958 Oklahoma received \$116 million in aid programs and contributed \$46 million in taxes toward the financing of federal aid programs. Thus, for each \$1.00 of taxes paid Oklahoma received \$2.52 in aid. Of the fifteen states that exceeded Oklahoma in aid per dollar of taxes paid, none contributed as much in taxes, and only one received more in total dollar aid. Internal revenue collections in Oklahoma also exceeded collections in these states. Of the 48 states twenty-one made a larger relative contribution than Oklahoma, while only nine

received more federal aid. This indicates that from the standpoint of "benefiting"<sup>5</sup> Oklahoma ranks very high among the states.

Table IX is a listing of the states showing the amount of grants received in each state, personal income per state, the assumed contribution per state based on income and the ratio of grants to assumed contributions. A comparison of Tables VIII and IX gives the same conditions for Oklahoma with two possible exceptions. The state ranks sixth (Table IX) in aid received per dollar of assumed contributions paid as compared to sixteenth in Table VIII, and the amount received per dollar of contribution paid is lower by 20 cents.

In Table X the "cost" of the grant-in-aid program to Oklahoma for selected years is presented. For the past three decades Oklahoma has received an average of approximately \$2.30 return for each tax dollar (see Table X). Over this time period the per cent of total aid received by Oklahoma has not fluctuated much nor has the per cent of assumed contributions. One may conclude on the basis of this approach that Oklahoma has received a great deal of benefit over and above "cost" from the federal aid programs.

Table XI shows "costs" for selected years based on internal revenue collections. If a changing trend exists in the amount of aid

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<sup>5</sup>As used here benefiting means: Based on the data in the table, Oklahoma, compared to other states, receives more dollars of aid per dollars of "contributions" from the aid program than most states.



TABLE X

"COST" OF THE GRANT-IN-AID PROGRAM IN OKLAHOMA FOR SELECTED  
YEARS 1930-1958, BASED ON PERSONAL INCOME PAYMENTS  
(MILLIONS OF DOLLARS)

Year	Aid to Okla.	Total U. S. Aid	Per Cent of Total Grants	Personal Income	U. S. Personal Income	Per Cent of Assumed Contribution	Assumed Contr.	Per Cent Grant is of Assumed Contribution
1930	2.84	120.20	2.35	884	76,780	1.15	1.38	202.5
1940	14.20	662.70	2.14	867	78,522	1.10	7.27	194
1950	64.30	1960.00	3.28	2514	225,473	1.12	21.90	293
1955	72.00	2762.00	2.61	3341	306,598	1.09	30.10	239
1956	75.80	3027.00	2.50	3532	327,947	1.08	32.70	231
1957	86.50	3500.00	2.47	3687	345,272	1.07	37.40	231
1958	115.70	4461.00	2.59	3975	356,328	1.08	48.25	240

Source: Aid: State Finances - Selected years.

Income: Survey of Current Business, August of selected years.

TABLE XI

"COST" OF THE GRANT-IN-AID PROGRAM IN OKLAHOMA FOR SELECTED  
YEARS 1930-1958, BASED ON INTERNAL REVENUE COLLECTION  
(MILLIONS OF DOLLARS)

Year	Aid to Okla.	Total U. S. Aid	Per Cent of Total Grants	Internal Revenue Collection	U. S. Total Collection	Per Cent of Assumed Contribution	Assumed Contr.	Per Cent Grant is of Assumed Contribution
1930	2.84	120.20	2.36	18.1	3,040	0.595	0.715	397
1940	14.20	662.70	2.14	57.7	5,340	1.08	7.15	198
1950	64.3	1960.00	3.28	473.5	38,957	1.06	20.75	309
1955	72.0	2762.00	2.61	664.1	66,289	1.00	27.62	261
1956	75.8	3027.00	2.50	702.8	72,113	0.935	28.90	268
1957	86.5	3500.00	2.47	784.4	80,172	0.98	34.50	254
1958	115.7	4461.00	2.59	817.4	79,978	1.02	45.5	254

Source: Aid: State Finances - Selected years.

Internal Revenue: Annual Report of the Internal Revenue, selected years.

received per dollar of tax in Oklahoma it is indicated by the right hand column. This shows a gradual decrease from 1930 to 1958. But, the change is not enough to be considered as a definite trend. Table XI brings out strongly Oklahoma's "profitable" position in the grant-in-aid program.

### Summary

In 1958 Oklahoma received 28.2 per cent of its income from federal aid. This was two times the leading internal source. For the past ten years Oklahoma has averaged over twenty per cent of its revenue from federal grants. This situation has not been an isolated case in Oklahoma. Most of the states have experienced similar conditions. The grant-in-aid has become an important part in state government finance.

It is impossible to determine just how much a state contributes in taxes to finance federal aid programs. However in this chapter several assumptions were made that resulted in an assumed "cost" to the states. These figures revealed that Oklahoma has averaged receiving \$2.30 in aid for each \$1.00 in taxes paid toward the support of federal aid programs.

## CHAPTER IV

### EVALUATION

Very seldom does the action of a governing body satisfy all those concerned. Such is the case with federal grants-in-aid. Several basic arguments have developed against federal grants-in-aid. To conclude this study these basic arguments, both pro and con, are presented insofar as they apply to federal grants-in-aid in general. Following this presentation the arguments that might apply to Oklahoma's situation are analyzed in the light of the information presented in this study.

Quite a few arguments have been advanced against aid programs. These have been countered by the same number favoring such aid. These arguments have been summarized into the five presented here. In the following discussion the basic arguments are presented one at a time giving both sides of that issue before the next is mentioned.<sup>1</sup>

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<sup>1</sup> These arguments are the summation of arguments presented in: Selma Mushkin, National Tax Journal, "Federal Grants and Federal Expenditures" (Lancaster, 1957), p. 193-213. Council of State Governments, The Federal Grants-In-Aid (Chicago, 1949), p. 42. Chamber of Commerce of the United States, Federal Grants-In-Aid, The Anatomy of the Problem (Washington, 1948), p. 5. Executive Department, State of Oklahoma, The Oklahoma Pocketbook, Your Budget in Brief (Oklahoma City, 1957), p. 3.

First, it has been argued that grants result in encroachment by the federal government upon services that were meant to be handled by state and local units, i. e., the federal government, through the grant service, is entering fields denied it by the Constitution. The opponents of this view claim that federal aid is a useful and flexible device for joining together the federal, state, and local governments in a common enterprise to perform activities that are necessary for the general welfare of the people. It is insisted that this aid is necessary because it is beyond the power of the state and local units of governments to raise the funds for such activity.

Secondly, it has been argued that federal aid leads to extravagant spending by both the federal and state governments because (a) special interest groups exert pressure on Congress for appropriations, and (b) states are tempted to spend more freely in order to match available federal grants. Those favoring aid assert that this is not true because (a) two levels of government watch expenditures, thus providing a double check on extravagance, and that (b) the cost of direct federal operation would probably be greater.

A third argument has been advanced from time to time to the effect that grant-in-aid programs place an unjust burden upon the taxpayer of wealthier states because citizens of these states are taxed to pay for governmental services in poorer states. This has been opposed by the position that aid programs were designed to redistribute

income and promote tax reform by permitting the use of progressive national taxation to support activities which otherwise would be financed through regressive local taxation.

A fourth argument against aid has been advanced that federal aid programs are only a round trip to Washington which is a costly, unnecessary procedure. Opponents have countered this contention by saying that the origin of a tax is in most cases not the location of need, and the money is spent where the need is greatest.

Finally, it has been held that federal aid leads to centralization (a) by establishing federal direction, supervision, and control of local activities, and (b) by creation of a large unwieldy and expensive central bureaucracy. Federal aid has been, it might be pointed out in rebuttal, a substitute for direct national action in many fields, thus preventing greater centralization and actually strengthening the states and localities.

These five arguments have been leveled against federal aid to the states for all such grant programs. They are arguments concerning the principles involved.

It was brought out earlier that Oklahoma received more than twenty per cent of her revenue from aid. Also the fact that her highway program would have to be curtailed without federal aid was mentioned. It was also shown how Oklahoma receives \$2.30 in aid for each \$1.00 in taxes paid to finance federal grant programs.

These conditions should be sufficient proof to Oklahomans that they should support the grant-in-aid programs rather than oppose them.

The five arguments touched upon above are now discussed on the basis of information presented in this study. As to the claim that the federal government has been encroaching on state's rights, in Chapter II it was pointed out that in 1915 Congress decided that certain objectives of the Constitution could be accomplished by federal aid to the states.<sup>2</sup> Among these objectives were the establishment of post roads, regulation of commerce and promotion of the general welfare. In Chapter III it was shown that Oklahoma could not provide all the highway services that were needed without federal aid. Thus, the basic objective of the Constitution, the promotion of the general welfare, has been better realized through federal aid programs than otherwise would have been possible.

As to the second argument, claiming extravagant spending by both federal and state, there is insufficient evidence to support this claim. The fact that federal aid leads to pressure group action on

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<sup>2</sup>The constitutionality of the federal conditional grant-in-aid was questioned before the Supreme Court in 1922 in Massachusetts vs Mellon and Frothingham vs Mellon (262 US 447). Both were dismissed in 1923 for lack of jurisdiction. The court stated that Congressional seizure of reserved rights of the states was a political question, not judicial. Justice Sutherland remarked that since the consent of the state was necessary before federal control could exist then there was no seizure of power.

Congress for appropriations is in no way unique. Any action by Congress may be accompanied by action by pressure groups of those concerned. Just because pressure groups exist is no reason to assume that the result will be extravagant spending.

Undoubtedly Oklahoma will try to raise as much money in matching funds as possible to take advantage of federal aid programs; but because both federal and state agencies control these programs (see Figure 2) the chances are the result will not be noticeable wasted funds. Most people feel that government action always results in some waste and that better results are possible with less funds. However, simply the fact that one government aids another does not inevitably mean more waste.

Oklahoma's highways are constantly being improved both as to type of construction and mileage involved. Federal aid, controlled by the state and national governments, has made this possible to a considerable degree.

In Chapter I it was noted that one of the main purposes of grant programs was to assist the states in financing a national minimum of certain selected services.<sup>3</sup> To do this means that federal tax funds must be placed in the states where needed regardless of the origin of the tax. It has been argued that states which pay a tax have vested

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<sup>3</sup>See also footnote 2, Chapter I.



rights to its benefits.<sup>4</sup> If the state which paid the tax received all the proceeds then this "would not be consistent with the relative state needs for public service".<sup>5</sup> In "The Cost of Federal Grants-in-Aid in Oklahoma" section of Chapter III the difference between state grant "take" and the federal tax "drain" was pointed out.

The distribution of federal grants-in-aid comes nearer being inversely related to internal revenue collections rather than the other way around. States where income (and internal revenue collections) are the lowest is precisely where economic aid is most necessary. All of the southern states, with the exception of North Carolina and Virginia, receive more in federal aid than they "contribute" in taxes to finance grants. The wealthy states, with the exception of California and Texas, "contribute" more in taxes than they receive in federal aid. The poorer states in terms of per capita income (Table V) such as Mississippi, South Carolina, Arkansas, Alabama, Georgia, Louisiana and Idaho average a gain of more than 150 per cent in grants over prorated contributions. States such as Connecticut, Delaware, New York, New Jersey, Ohio, Illinois, Michigan and Pennsylvania average less than a 70 per cent return. Thus, the aid programs are fulfilling the aim of more equality in the distribution of general welfare.

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<sup>4</sup>Mabel Newcomer, "Critical Appraisal of Federal and State Aid", Federal, State, and Local Tax Correlation (Princeton, 1954), p. 91-100.

<sup>5</sup>Selma Mushkin, p. 195.

Those who oppose using grants-in-aid to achieve equality should realize that using the progressive taxing power of the federal government is better for the general public than letting local units attempt it using proportional, i. e. regressive taxes.

Oklahoma ranks 35th in per capita income (Table V) but ranks sixteenth (Table VIII) in grants as a per cent of assumed contributions. Thus Oklahoman's experience first hand the effective equalizing force of the grant-in-aid.

Those who claim that federal aid is just a "round trip" to Washington will find little supporting evidence from this study. These differences have just been noted. However one part of this argument, the claim that there is an extra administrative cost, tends to be true. It does cost money to administer the federal grant-in-aid program, but the benefits out weigh the cost as noted below.

Labovitz found that about 1.0% of the total of grant expenditures is consumed in administrative expenditures.<sup>6</sup> In 1957 (Table III) Oklahoma received \$106,151,000 in federal aid. Administrative cost, using Labovitz' results would amount to \$1,061,510. It cost Oklahoma

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<sup>6</sup>I. M. Labovitz, "Federal Expenditures Associated with the Administration of Programs of Grants-in-Aid to State and Local Governments", Legislative Reference Service, Library of Congress, April 17, 1957, 34 pp. quoted in Selma Mushkin, pp. 194-195.

approximately \$960,000<sup>7</sup> to administer the gasoline sales tax in 1957. Although it cost money to administer federal aid in Oklahoma covering some 50 programs in 1957 this cost amounted to little more than the state's cost of collecting the gasoline tax.

The question of centralization of power has not been discussed in this study. However, one argument not included in the five listed but closely related to that of centralization is the one stating that federal aid tends to take control of funds spent by a state out of the state's hands and places it in federal controlling hands. It is argued that states no longer have budgeting control because a large part of their revenue is from federal grants-in-aid.

To what extent, then, has federal aid distorted state budgeting control? In 1958 total grants-in-aid to all states amounted to \$4.461 billion.<sup>8</sup> While this was a relatively small part (12.4%) of total federal expenditures of \$71.9 billion<sup>9</sup>, it was a large part of total

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<sup>7</sup>The \$960,000 was determined as follows: It cost (Table VI) \$0.0012 per gallons for collection and administration of the gasoline tax. In 1957 798,839,000 gallons were taxed (Table VII) giving a total of \$960,000.

<sup>8</sup>Compendium of State Government Finances in 1958, p. 10.

<sup>9</sup>Annual Report on the State of Finance 1958, p. 450.

state expenditures of \$28.1 billion.<sup>10</sup> When \$4.461 billion<sup>11</sup> matching funds are added to the federal aid it is noted that the federal government exercises some control over about 32 per cent of all state expenditures. However it has been assumed by James Maxwell that if the federal government would remove grants then states would continue to spend the same amount which would be one-half of the total federal and state expenditure since a fifty per cent matching basis is used.<sup>12</sup> Based on Maxwell's assumption then, the federal government would have control of only half the above 32 per cent or approximately 16 per cent. This percentage will differ among states (see Figure 4). In Oklahoma 28.2 per cent of the total 1958 revenue was from federal grants-in-aid. It has averaged around 20 per cent for the past ten years so it must be concluded that Oklahoma and the states in general have lost some control over their budgets. However, the benefits derived from federal aid greatly overshadow any loss of budgetary control by the states.

Other conclusions of this study may be summarized briefly. In Chapter II mention was made to the fact that federal funds listed

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<sup>10</sup>Compendium of State Government Finances in 1958, p. 10.

<sup>11</sup>Matching funds are assumed equal to grants. Actually the amount will be slightly different because all aid programs are not on an equal matching basis.

<sup>12</sup>James A. Maxwell, "Problems of Grants-in-Aid", Conference Board Business Record (August, 1954), p. 330.

as granted to a state in a given year may not correspond to the actual program activities in said state for that time period. Also in Chapter II, it was pointed out that the federal aid trends may misrepresent the overall actual expenditures of federal, state and local governments. These trends may show a concentration of effort in certain programs when actually more interest is put into other programs.

In Chapter III it was noted that on a per capita basis federal aid seemed to be concentrated in the southern or low income states which was at the expense of northeastern or wealthier states. It was found that this condition just did not "happen" but was the result of the federal aid programs. Oklahoma could not be considered a high or low income state, but as a result of federal aid she has been treated as a low income state. This was brought out in both the per capita income discussion and the "cost" section. On a per capita basis Oklahoma received the third highest federal aid per capita yet ranked 35th in income per capita. In the "cost" section two different methods of cost computation revealed that Oklahoma received from 200% to 300% "return over cost".

Another part of Chapter III indicated that Oklahoma could not carry on her present level highway construction without federal aid. Although it was not pointed out in this study, it is believed that the above condition would exist in many of the programs in many of the states.

If Oklahoma's position could be summed into one statement it would have to say that Oklahoma has greatly advanced her services to the people that surely would not have received such attention without aid from federal grants.

It is felt that the conclusions set forth above point out the very important part that federal aid can and is playing in the financing of state governments, particularly Oklahoma. However, it is realized that this method is not the ideal solution to state finance problems. This study has shown that many states have benefited but other states have seen part of their revenue flow from them through the grant-in-aid to the other states.

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VITA

James L. Newton

Candidate for the Degree of

Master of Science

Thesis: FEDERAL AID TO OKLAHOMA WITH PARTICULAR  
ATTENTION TO THE HIGHWAY PROGRAM

Major Field: Economics

Biographical:

Personal Data: Born in Camden, Arkansas, September 3,  
1934, the son of Jack J. and Lucelle Smith Newton.

Education: Attended grade school at Cleveland Avenue  
School in Camden, Arkansas; graduated from Camden  
High School in 1952; received Bachelor of Science  
degree from Southern State College, Magnolia,  
Arkansas in 1956 with a major in Business Admini-  
stration; received Associate Degree in Electronics  
from Oklahoma State University in May, 1960;  
completed requirements for Master of Science in  
May, 1961.

Professional Experience: Served as graduate assistant in  
Economics at Oklahoma State University. Presently  
employed by International Business Machines, Inc.