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FEDERAL AID AS A ROAD BUILDING POLICY  
DO SOME STATES PAY MORE THAN THEY RECEIVE?

Section III

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In the preceding sections of this article we have explained the operations of the Federal-aid plan of highway improvement, and pointed out that the participation of the Federal Government under the conditions of highway transport at present prevailing is in no sense to be considered as gratuitous aid to the States. On the contrary, it is an effort to accomplish a distinctly Federal purpose - the balanced improvement of a limited interstate highway system, and to do so cooperatively with the States whose interests in the selected system are equal to the Government's.

It has been shown that this Federal activity, is not as some have contended an invasion of the functions of the States; that it is thoroughly constitutional; and that the apportionment of the Federal appropriations among the several States, under the statutory prescription is remarkably in accord with the need for expenditure as indicated by the varying density of traffic on the sections of the system within the respective States.

By the traffic test - the only proper one - some of the States are found to fare somewhat more fortunately than others

in the Federal apportionment; but without exception the States which the principal opponents of the Federal-aid policy believe to be inadequately aided are shown by this test to benefit by the Federal appropriations in reasonable proportion to their relative needs.

It is the contention of these opponents - a small group - that no State should receive a lesser proportion of the Federal road appropriations than the proportion of the total internal revenue it pays into the Federal Treasury.

Those who hold this view fail to grasp, or ignore, the interstate significance of the Federal highway expenditures; they disregard the common benefit of all the States in having a well articulated interstate system of highway communication; they ignore the fact that Federal taxes are collected and disbursed to accomplish Federal purposes and that they are paid by individuals as citizens of the United States and not by the States or by their residents as citizens of the States. They regard these considerations as of no force and hold to the simple doctrine that no State should be required to pay for improvements made beyond its own borders.

The majority of those objectors have the State of New York in mind. More than a fourth of the total amount of internal revenue is collected in that State, and it receives of

the Federal-aid appropriations only a twentieth. It is claimed that this is conspicuously unjust. But, if there is merit in the principle at all, then all States in which the revenue collected is a greater proportion of the total than the proportion of the Federal-aid appropriations they receive, are also unjustly treated.

The States which, on this basis must be included with New York, are shown in the following tabulation with the percentages of the internal revenue collected in them and the percentage of the Federal-aid appropriations they receive. All other States receive a percentage of the Federal road appropriations greater than the percentage of the internal revenue collected from them.

State	Percentage of Internal Revenue Receipts, fiscal year, 1927	Percentage of Federal-aid apportionment fiscal year, 1929
California	4.87	3.40
Connecticut	1.26	.65
Delaware	.54	.50
Florida	1.55	1.23
Illinois	7.59	4.29
Maryland	1.13	.87
Massachusetts	4.00	1.49
Michigan	6.91	3.02
New Jersey	3.98	1.28
New York	26.35	4.96
North Carolina	7.18	2.35
Ohio	5.14	3.77
Pennsylvania	9.03	4.56
Virginia	2.76	1.97
Total	<u>82.29</u>	<u>34.34</u>

As shown by the table, over 82 per cent of the total internal revenue for the fiscal year 1927 was collected in these fourteen States, and the same States received only 34 per cent of the Federal-aid apportionment for the fiscal year 1929. Those who object to this situation do so on the ground that the States are entitled to a return of Federal appropriations in the same ratio as their tax collections.

What is wrong with this objection? Perhaps the best answer to that question is to see what would happen if the basis of apportionment were revised accordingly. If that were done the fourteen States listed would receive 82.29 per cent of all Federal-aid road appropriations, and if the revised basis had been established with the first appropriation, by now they would have received \$674,000,000 of the total of \$817,625,000 thus far apportioned. Since the aggregate length of the 7 per cent system in these States is 49,509 miles, their apportionments to date, if they had been made on this basis, would amount to an average of \$13,600 a mile, whereas the other 34 States would have received only \$950 for each of the 151,054 miles of the remainder of the 7 per cent system. Obviously such an apportionment would be wholly inconsistent with the relative highway requirements of the two groups of States.

### New York vs. Pennsylvania

But, perhaps we can show the defect of the proposal still more clearly by comparing two States in the group from which there are large tax collections. Suppose we take New York and Pennsylvania. They are neighboring States. The character and weight of their traffic is much the same. The same kind of road improvement is required in each State; and practically the same kind is being provided. On the existing basis of apportionment New York has received to date \$7,200 per mile of its system and Pennsylvania has received \$6,040 per mile, amounts which are very consistent with the respective requirements. But, if each State had shared only in the proportion of the taxes collected in them, New York would have received by this time nearly \$38,000 for each mile of its 7 per cent system and Pennsylvania would have received less than \$12,000 per mile for the improvement of its system.

Apply another test. If the Federal revenues should be expended only in the States from which they are collected, then, presumably, they should be expended in only those parts of the States from which they are collected. Let us see what would happen to New York if the argument were followed to this logical conclusion. The internal revenue taxes are collected in New York at six offices, of which one is in Brooklyn, two are on Manhattan

Island, one in Albany, one in Syracuse, and one in Buffalo. The total tax collected by these six offices in the fiscal year 1927 was \$755,079,237.01. Of this sum the three offices in the City of Greater New York collected \$627,478,603.93, every penny of which was collected within the city limits where there are no Federal-aid roads at all; and the other offices collected from the rest of the State only \$127,600,633.08, an amount which is only 4.5 per cent of the total for the country at large. If an equal percentage of the Federal-aid appropriations had been apportioned to the State from the beginning of the work it would have received by now only \$36,800,000, or approximately \$6,400 per mile of its 7 per cent system. Actually the State has received \$7,200 per mile on the existing basis.

Of course, those who complain that this or that State pays more than it receives utterly ignore the national objects of the expenditure - the connection of State with State, the construction of transcontinental highways over the mountain passes and across the desert spaces of the West, the building of roads for national defense. They overlook the fact that from the national point of view the need for Federal expenditure is not gauged at all by the wealth of the States nor by their tax contributions, but rather by the area to be spanned,

and the milage to be built, and the traffic to be accommodated. All these things they fail to take account of; and insist only that if there is to be any Federal expenditure at all, no State should benefit in lesser proportion than the percentage of internal revenue collected from it.

#### Internal Revenue Not Paid Where Collected

Assuming that the general premise were sound, the statistical basis upon which the effort is made to show that certain States are taxed beyond the return they receive is grossly misleading.

Those opposed to the Federal-aid policy on this ground assume that the internal revenue collections reported as received from the several States represent taxes paid by the citizens of the respective States. The assumption is incorrect.

There are several varieties of internal revenue, of which the following are the principal forms: Income taxes of individuals and corporations; taxes on estates; taxes on distilled spirits and alcoholic beverages; taxes on tobacco and tobacco manufactures; taxes on oleomargarine and adulterated or renovated butter; stamp taxes on stocks and bonds and playing cards; manufacturers' excise taxes on motor vehicles, pistols, and cereal beverages, narcotic taxes; and taxes on

theatre admissions and club dues. Of these several kinds of taxes the only ones which it is safe to assume are paid by citizens of the States in which they are collected, are the individual income taxes and the taxes on theatre tickets and club dues.

The corporation income taxes are collected wherever the business offices of the corporations may be, but they are ultimately paid by the stockholders whose homes may be, and often are far removed from the place of tax collection. The taxes on various kinds of manufactured articles and commodities are collected where the manufacturers have their offices. They are ultimately paid by consumers all over the land. Even the estate taxes may often be paid by legatees residing elsewhere than the State in which the taxes are collected.

If the internal revenue collections of the various States are examined with these facts in mind it becomes apparent at once that there are wide differences between the amounts collected in each of the States and the amounts paid by their citizens.

For example: Two of the fourteen States listed above as showing a percentage of internal revenue receipts greater than their respective percentages of Federal-aid apportionment, are North Carolina and Virginia. The total receipts from North Carolina in the fiscal year 1927 were \$205,651,675, an amount

that was exceeded only by the receipts from New York, Pennsylvania, and Illinois. It represented over 7 per cent of the total receipts from the entire country, whereas the percentage of Federal-aid apportionment to the State was only 2.35. On examining the source of these receipts, however, we find that they include tobacco taxes of \$185,941,504 which, although they are collected in the State, are actually paid by consumers in every State. This amount should obviously not be credited to North Carolina, and if it is deducted the balance - which still includes some revenue for which the State should not be credited - is less than one per cent of the total internal revenue collected during the year, a proportion considerably less than the State's Federal-aid percentage.

A similar examination of the Virginia receipts shows that the tobacco tax produces nearly \$58,000,000 of the State's total receipts of a little over \$79,000,000; and the balance is less than one per cent of the total internal revenue, whereas the Federal-aid apportionment percentage is 1.97.

Clearly, therefore, it may not be asserted that the citizens of these two States pay in greater proportion than they receive, although from the bare statistics it would appear that they do.

### The Case of Michigan

Michigan is another of the States that appear to pay more heavily than they benefit. Its internal revenue collections in 1927 amounted to nearly \$198,000,000, or nearly 7 per cent of the total, whereas its apportionment of Federal aid is only 3 per cent. But, on examination of the sources of the revenue, we find that it includes over \$48,000,000 of excise taxes on motor vehicles and nearly \$4,000,000 of tobacco taxes, the ultimate payment of which is by citizens of many States. We find also that the corporation income taxes are more than half of the total, and without question a large part of this portion of the receipts consists of taxes on the income of motor vehicle manufacturing concerns, which are really paid by the widely scattered stockholders in these great corporations. A very large part of the individual income taxes of \$38,000,000 is paid by the Fords, father and son. The exact amount of their tax in 1927 is not readily available. In 1923 it was more than \$21,000,000. If all the deductions here indicated could be made in order to get at the amount actually paid by the citizens of Michigan it is more than probable that it would be found that they pay no more than their proportional per capita share and no more than the percentage of Federal aid they receive.

Similarly we might go through the list of the fourteen States which appear, on the face of the tax records, to pay more than their fair share of the Federal revenue, and show pretty conclusively that, when the revenue credited to them is stripped of the items which are ultimately diffused, the amount actually paid by the citizens of each of the States is little if at all greater in proportion to the total than the share of the Federal-aid appropriations they receive.

With the possible exception of Florida the remaining States of the fourteen - California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, and Pennsylvania - include or share directly in the influence of the great national financial and business centers - New York, Chicago, Philadelphia, Cleveland, Boston, Baltimore, San Francisco, and Los Angeles. In these cities and a few others are our great financial institutions and the head offices of the great national commercial organizations, and in them are paid the taxes which are based upon the wealth of a large part of the nation and which ultimately are borne by the real owners of that wealth wherever they reside; and their homes are every where.

### What Does New York Really Pay?

Take New York as the outstanding example. It apparently pays more than 26 per cent of the total internal revenue; but without the city of New York the State's contribution would be only 4.5 per cent of the total - less by a half of one per cent than the Federal-aid percentage. The mere chance of location which places New York City on the east bank of the Hudson River instead of the west gives to the credit of the State of New York instead of the State of New Jersey the revenue tax returns which in fact are ultimately paid by citizens of the United States residing in every one of the 48 States.

How true this statement is may be illustrated by a few specific examples to show how widely distributed are the owners of the corporations which pay their Federal taxes in New York, and how far removed from that State, in many instances, are the sources of the wealth taxed. The facts are taken from an analysis by W. C. Markham, executive secretary of the American Association of State Highway Officials, and relate to the situation in 1924.

First there is the United States Steel Corporation with 145 plants and warehouses, only two of which are in New York State. There are more than 153,000 stockholders resident in all States and possessions of the United States - more of them in Pennsylvania than in New York.

There is the Union Pacific Railroad. It has no lines east of Omaha, and its stockholders live in many States; but it pays its tax in New York City. The Southern Pacific, another western road, also pays its tax in New York although its stockholders are everywhere and it has not a mile of track nearer to New York than New Orleans.

And then there are these others, the mere mention of which will be sufficient to show that the taxes they pay are not based on earnings in the State of New York. There are the American Railway Express; the American Beet Sugar Company; the American Can Company; the American Locomotive Company; the American Radiator Company; the American Smelting and Refining Company, whose smelters are in Colorado, Utah, Washington, California, Montana, Texas, Arizona, Maryland, Illinois, Nebraska, Oklahoma, New Jersey, and almost everywhere except New York. The stockholders of these concerns reside in practically every State; and so do those of the American Sugar Refining Company; the American Telephone and Telegraph Company; the American Tobacco Company; the Anaconda Copper Mining Company; the National Biscuit Company; the National Lead Company; the Sinclair Consolidated Oil Corporation; the Union Tank Car Company; the Woolworth Company; the Western Union Telegraph Company; and a great many others.

It will be unnecessary, perhaps, to add further proof that the Federal taxes collected in New York are in reality paid on the income of a very large part of the population of the United States resident in every State; and what is true of New York is true, in lesser degree, of the other States in which there are great financial and industrial centers. It is a false theory which assumes that States contribute to the Federal Treasury. The Federal taxes are paid finally by individuals all over the land who, wherever they may live, are citizens of the United States. They pay their taxes to meet Federal needs, and the improvement of the Federal-aid highway system is such a need.

The basis of Federal-aid apportionment, recognizes differences in the area of the several States; it recognizes differences in the mileage of road required to span their respective areas; and, by taking account of differences in population, it recognizes differences in degree of highway usage which are dependent upon density of population. It has been tested by over 10 years of operation and has been modified as experience has indicated the need. Doubtless it could be improved by further modification; but, generally speaking, it has met the requirements.

### Other Objections Answered

Descending to a lower plane of criticism, we meet the claim that some of the States have built their own roads with their own money and need no Federal aid, and this is coupled with the suggestion that the others should "go and do likewise". This claim involves, first, the assumption that the Federal appropriation is a gratuity toward the accomplishment of improvements of benefit solely to the individual States; and this assumption has been shown to be incorrect. It involves also another assumption - equally incorrect - that roads are improved once for all time, whereas the experience of a quarter of a century shows conclusively that improvement must be a continuous process if our highways are to be kept adequate for the constantly growing traffic. However, the complete answer to this claim is this; That the States that are assumed to have built their roads are still spending large sums for road building; that with the exception of the three smallest no State has yet adequately improved its entire 7 per cent system; and that all States, without exception, are absorbing the Federal apportionments in the making of needed improvements.

And, finally, we come to these other related objections that the policy is paternalistic, that it is an unwarranted Federal infringement upon State authority, that its administration

is bureaucratic and not amenable to the will of the people, and that it fastens upon the taxpayers the burden of maintaining an army of Federal jobholders. As to the first two points of the indictment, we believe the answer has already been given.

With regard to the others we will merely point out:

1. That the law itself places the initiative in all matters in the hands of the State highway departments, reserving to the Federal Administration only such authority as is necessary to assure a reasonable coordination of effort toward the accomplishment of the Federal objective of a completely improved interstate highway system.
2. That there has been a studied effort to accommodate the administration of the law to the particular circumstances of each State, by decentralization of authority and the avoidance of impracticable general standards.
3. That every major administrative policy has had the support of the American Association of State Highway Officials the national organization of State highway executives and engineers; and
4. That of every dollar of Federal money appropriated 97½ cents goes into the labor and materials of actual

road construction, and the other  $2\frac{1}{2}$  cents not only pays the entire cost of the Federal-aid road administration, but also supports the research activities of the Bureau of Public Roads.

How successfully the Federal administration has accomplished the aims which it has set for itself, and whether or not its stewardship has been efficient and effective: those questions we leave to others to judge.