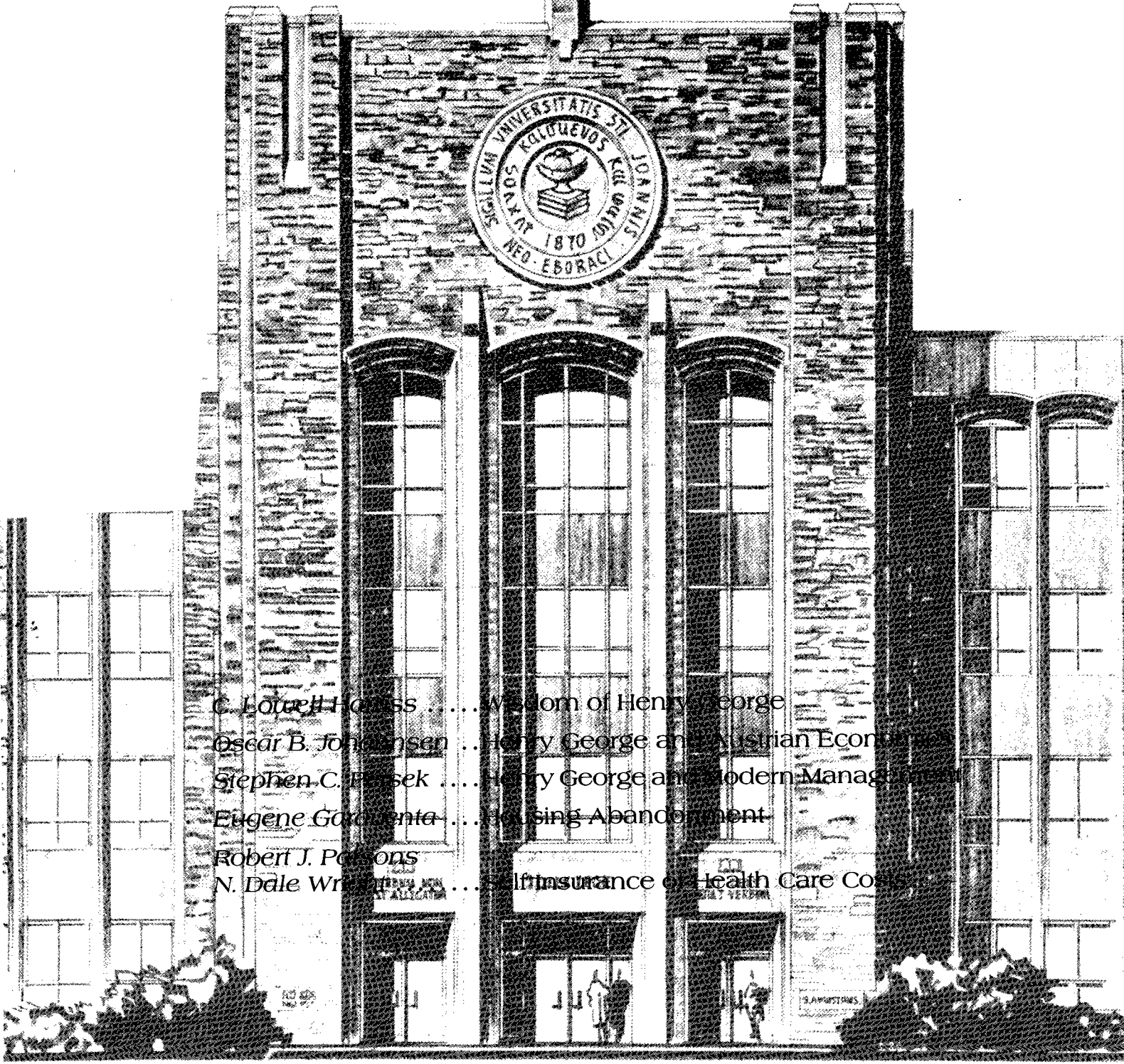


# REVIEW OF BUSINESS WINTER 1982



C. Lowell Harris . . . . . Wisdom of Henry George  
Oscar B. Johansen . . . . . Henry George and Austrian Economics  
Stephen C. Farsek . . . . . Henry George and Modern Management  
Eugene Garofalo . . . . . Housing Abandonment  
Robert J. Parsons  
N. Dale Wright . . . . . Self Insurance of Health Care Costs

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# REVIEW OF BUSINESS,

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## Editor's Note

The major theme of this issue of the *Review of Business* is the work of the 19th Century American economist, Henry George. Thus the first article presents a sampling of his writings on free trade and taxation selected by C. Lowell Harriss. Next, Oscar B. Johannsen discusses the similarities and differences between George and the Austrian School of Economics, covering such diverse issues as methodology, land ownership and business cycles. And third, Stephen C. Persek describes Henry George's book, "The Science of Political Economy," and relates it to management as practised in the 20th Century.

The fourth article, while not directly related to Henry George, has as its focus a topic of interest to him. Eugene Garaventa discusses land use with special reference to housing abandonment, and suggests various remedies to this growing problem.

Finally, Robert J. Parsons and N. Dale Wright introduce a new, important alternative to traditional methods of financing health care, self insurance. They show that it is possible for companies to offer employees health coverage equal to that provided by traditional methods, at what can be significant cost savings.

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The views presented in the articles are the author's own, and do not necessarily represent those of the *Review of Business* or St. John's University.

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# Lessons of Enduring Value: Henry George After a Century

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C. Lowell Harriss

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*"I ask no one who may read this book to accept my views. I ask him to think for himself."*  
(SP, p. 242)<sup>1</sup>

A century ago, Henry George was by far the most widely read writer on economics. He wrote about matters of deep and broad concern, with conviction and a style that commanded attention. The selections here will illustrate his skill and, I hope, tempt you to read for yourself for the stimulus of a master of brilliant style, writing about topics of everlasting importance.

Today, George deserves attention. Much of what he says has relevance, direct and indirect, to present conditions; much retains its original validity; but not all. Our critical faculties must not be dulled by admiration for what stands as valid. Today's world differs from the world George observed. He wanted to get the reader "to *think* for himself" (emphasis added).

My original plan was to select two subjects about which George wrote with conviction, which confront us in the 1980's (in some significant form), which are controversial, and for which his prescriptions seem to me far more correct than deficient: land value taxation and international free trade. Yet as I read further, I decided to include samples of his thought on other topics.<sup>2</sup>

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## Free Trade

"Trade is not invasion. It does not involve aggression on one side and resistance on the other, but mutual consent and gratification." (PFT, p. 46) On opening "Protection or Free Trade" at random, my eye pounced on this quotation. It is only one of hundreds, perhaps thousands, which tell us something of enduring value. This one is not controversial; some are.

In the Nineteenth Century, one of the major issues of public debate was the question of using governmental power to restrict imports, or "protectionism." George fought for freedom, as these three quotes will illustrate.

"Who would think of recommending a site for a proposed city or a new colony because it was very difficult to get at? Yet if the protective theory be true, this would really be an advantage. Who would regard piracy as promotive of civilization? Yet a discriminating pirate, who would confine his seizures to goods which might be produced in the country to which they were being carried would be as beneficial to that country as a tariff." (PFT, p. 35)

"What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war." (PFT, p. 47)

"If to prevent trade were to stimulate industry and promote prosperity, then the localities where he was most isolated would show the first advances of man. The natural protection to home industry afforded by

rugged mountain-chains, by burning deserts, or by seas too wide and tempestuous for the frail bark of the early mariner, would have given us the first glimmerings of civilization and shown it its most rapid growth. But, in fact, it is where trade could best be carried on that we find wealth first accumulating and civilization beginning. It is on accessible harbors, by navigable rivers and much traveled highways that we find cities arising and the arts and sciences developing. And as trade becomes free and extensive . . . so does wealth augment and civilization grow.” (PFT, p. 51-52)

The struggle for freedom of trade as against restriction went against freedom most of the time for much of the half century after George began his efforts. Then this country, under the leadership of Secretary of State Cordell Hull, took the initiative for a reduction of barriers, first on a bilateral basis, then on a broad scale.

The enormous expansion of world trade for more than three decades after World War II was part of those processes that raised levels of living for hundreds and hundreds of millions of human beings all over the world. Few Americans have any idea of how much the tariffs obstructing our imports have come down. Nor do we appreciate how greatly our well-being depends upon exporting, and how it has profited from reduction of barriers of other countries.

At the moment, forces for restriction here and abroad are discouragingly powerful — discouraging for human welfare. Both observable and almost invisible, but still powerful, non-tariff barriers dominate concerns today. They can be very harmful, yet their supporters can give justifications which appear plausible. Nevertheless, it seems to me that the fundamental principles of freedom which George enunciated remain valid.

A complete evaluation of this issue must now involve relatively new aspects, such as floating exchange rates, government subsidies for exports, a several-fold increase in the number of sovereign countries, and extension of the notion that politics and bureaucracy should exert a considerable influence on markets and economic life in both developing and the most developed countries.

George’s knowledge of human nature and governmental processes enabled him to draw conclusions about the realities of intervention which can warn us today of dangers. For example:

“The result is, and always must be, the enactment of a tariff which resembles the theoretical protectionist’s ideas of what a protective tariff should be about as closely as a bucketful of paint thrown against a wall resembles the frescoes of a Raphael.” (PFT, p. 92)

Today, some of the most difficult problems of international trade involve agricultural products. Some farmers do face difficulties, in part because land prices have risen to levels that almost assure financial strain. One frequent response to this is the advocacy of restricting imports that make food more costly. Britain had such restrictions, the Corn Laws, a century and a half ago. Cobden and Bright led the effort that freed the British consumer of such burdens. George has a moving statement, one which involves not merely the specific element of tariff, but also the need for leadership and concerned, devoted effort for a better world:

“ ‘Come with me,’ said Richard Cobden, as John Bright turned heartstricken from a new-made grave. ‘There are in England women and children dying with hunger — hunger made by the laws. Come with me, and we will not rest until we repeal those laws.’ In this spirit the free-trade movement waxed and grew.” (PFT, p. 277)

### George as an Economist

Quoting selected passages does not assure an accurate impression of an author’s intentions. In fact, significantly different impressions could be conveyed by care (or carelessness?) in selecting from a single author’s writings. Such might be true with George, but I have tried to be responsible and to convey an accurate impression. The great British economist, Alfred Marshall, who had more than a little disagreement with George about land taxation, called him a “poet.” George did write with style. He was persuasive, but our critical faculties must always be alert.

Was George really an economist? Some of his contemporaries teaching in colleges were critical, and George had hard words to say about them, impugning their integrity (without citing evidence). For example:

“And while colleges and universities and similar institutions, though ostensibly organized for careful investigation and honest promulgation of truth, are not and cannot be exempt from the influences that disturb the study of political economy; they are especially precluded under present conditions from the faithful and adequate treatment of that science. For in the present social conditions of the civilized world nothing is clearer than that there is some deep and wide-spread wrong in the distribution . . . of wealth. This it is the office of political economy to disclose, and a really faithful and honest explication of the science must disclose it.

But no matter what that injustice may be, colleges and universities, as at present constituted, are by the very law of their being precluded from discovering or revealing

it. For no matter what be the nature of this injustice, the wealthy class must, relatively at least, profit by it, and this is the class whose views and wishes dominate in colleges and universities. As, while slavery was yet strong, we might have looked in vain to the colleges and universities . . . in our Southern States for any admission of its injustice, so under present conditions must we look in vain to such sources for any faithful treatment of political economy. Whoever accepts from them a chair of political economy must do so under the implied stipulation that he shall not really find what it is his professional burden to look for.

...he who would really know what political economy teaches can find no consistent body of undisputed doctrine that he may safely accept; and can turn to the colleges and universities only with the certainty that, wherever else he may find the truth, he cannot find it there." (SPE, p. xl-xli)

A modern economist will accept the conclusion of the great Austrian-American economist, Joseph Schumpeter: "Henry George . . . was a self-taught economist, but he was an economist. In the course of his life, he acquired most of the knowledge and of the ability to handle an economic argument that he could have acquired by academic training as it then was." He did not incorporate marginal analysis, which was published several years before his death, but whose significance he failed to understand. Yet it seems to me that his major policy conclusions would hardly have been different. The deficiency must, however, make one alert to possible weaknesses. The fact that he seems so very correct on so much does not assure that he deserves support on all points.

Compared with much of modern economics, George's work makes almost no systematic use of quantitative evidence. A century ago, data were scarce by modern standards. George observed and drew conclusions; he read widely; he utilized illustrations from a variety of sources; vividly expressive figures of speech abound. They do not necessarily substantiate the points he makes, but I find most of them more convincing than suspect.

George was a social philosopher. He ranged beyond supply and demand and the confines of narrow economics. Some of his value for us today lies in his observations about society. To illustrate:

"The progress of civilization necessitates the giving of greater and greater attention and intelligence to public affairs. And for this reason I am convinced that we make a great mistake in depriving one sex of voice in public matters, and that we could no way so increase the attention, the intelligence and the devotion which may be brought to the

solution of social problems as by enfranchising women." (SP, p. 243)

And:

"For there is to the community also a natural reward. The law of society is each for all, as well as all for each. No one can keep to himself the good he may do, any more than he can keep the bad. Every productive enterprise, besides its return to those who undertake it, yields collateral advantages to others. If a man plant a fruit tree, his gain is that he gathers the fruit in its time and season. But in addition to his gain, there is a gain to the whole community. Others than the owner are benefitted by the increased supply of fruit; the birds which it shelters fly far and wide; the rain which it helps to attract falls not alone on his field; and, even to the eye which rests upon it from a distance, it brings a sense of beauty. And so with everything else. The building of a house, a factory, a ship, or a railroad, benefits others besides those who get the direct profits. Nature laughs at a miser. He is like the squirrel who buries his nuts and refrains from digging them up again. Lo! they sprout and grow into trees . . . . The bee fills the hollow tree with honey, and along comes the bear or the man.

Well may the community leave to the individual producer all that prompts him to exertion; well may it let the laborer have the full reward of his labor, and the capitalist the full return of his capital. For the more that labor and capital produce, the greater grows the common wealth in which all may share. And in the value or rent of lands this general gain expressed in a definite and concrete form. Here is a fund which the state may take while leaving to labor and capital their full reward. With increased activity of production this would commensurately increase." (PP, p. 436)

### An Opponent of Socialism

George, as Professor Yeager pointed out at St. John's recently, condemned centralized governmental management of the means of production, socialism, because it would destroy spontaneous coordination. Two generations later this point became central to the criticism of socialism. Another generation later, mankind, with considerable experience, should have the evidence to substantiate the point which George saw theoretically a century ago. Three quotations will illustrate:

"[Attempting conscious direction of work which requires spontaneous coordination] is like asking the carpenter who can build a chicken-house to build a chicken also.

This is the fatal defect of all forms of socialism — the reason of the fact, which all observation shows, that any attempt to carry conscious regulation and direction beyond the narrow sphere of social life in which it is necessary, inevitably works injury, hindering even what it is intended to help.

And the rationale of this great fact may... be perceived when we consider that the originating element in all production is thought or intelligence, the spiritual not the material. This spiritual element, this intelligence or thought power as it appears in man, cannot be combined or fused as can material force.” (SPE, p. 391-2)

“In other words it is only in independent action that the full powers of the man may be utilized. The subordination of one human will to another human will, while it may in certain ways secure unity of action, must always where intelligence is needed, involve loss of productive power.” (SPE, p. 392-3)

“The proposal which socialism makes is that the collectivity or state shall assume the management of all means of production, including land, capital and man himself; do away with all competition, and convert mankind into two classes, the directors, taking their orders from government and acting by governmental authority, and the workers, for whom everything shall be provided, including the directors themselves . . . . It is more destitute of any central and guiding principle than any philosophy I know of . . . . It has no system of individual rights whereby it can define the extent to which the individual is entitled to liberty or to which the state may go in restraining it.” (SPE, p. 198)

## Poverty

Time and again George reminds the reader of poverty, so often desperate and degrading. But not, he believed, inevitable! Monopoly and private ownership of the rent from land seem to be the chief causes of terrible poverty. Unless I have missed some of his message — and I have not read all of his writings — he oversimplified a complex problem. Of course, we share his sentiments. Who does not hate misery?

At times, he shows awareness of the progress that was being made for many. Yet the reader will most likely have the impression of persisting, unrelenting poverty. The absence of statistics certainly helps to account for George’s failure to present a perspective of real progress from year to year.

His diagnosis must have been incomplete. The enormous improvement in living standards in the

century since he wrote occurred without the land tax reform he thought so essential. There were elements in the operation of the economy which have brought economic benefits for the vast majority beyond anything he predicted. Why?

Monopoly has been weaker, and competition stronger, than he probably expected. Certainly, his belief that land ownership represented powerful monopoly differs from reality. Land is owned in plots, most of which are small in relation to the total supply. The owner of a plot of land finds his power to command extortionate rents limited by competing landowners. Each individual owner does have a monopoly, but only on a small amount.

Industrial monopoly has also been less extensive than he probably believed. The picture of a single mill as the dominant employer in a community applies to only limited portions of the economy; population moves; wages have not in fact remained at a level of bare subsistence.

The “War on Poverty” associated with the leadership of President Johnson and the vision he articulated in 1964 offers insights into a problem which George oversimplified. Many approaches have been tried, and vast sums have been provided. Results? One thinks of the half-empty, half-full glass illustration. The position of the lowest fifth of the income distribution has improved. Much has been accomplished by many forces — those of markets and government programs. Yet problems persist. One can scarcely expect George to have foreseen, for example, the World of Aid for Families with Dependent Children. Reading writers of the past can inspire admiration, yet one should not accept everything an author advances because he or she is very right on some points.

## Redistribution? Not by Compulsion

As much as George hated poverty, he did not propose compulsory income redistribution as a remedy. His attitude was far removed from that widely held today, which supports government redistribution. He believed in incentives and rewards. He believed in the justice under natural law of private ownership of property:

“It would not merely be gross injustice to refuse a Raphael or a Rubens more than a house-painter, but it would prevent the development of great painters. To destroy inequalities in condition would be to destroy the incentive to progress. To quarrel with them is to quarrel with the laws of nature. We might as well rail against the length of the days or the phases of the moon; complain that there are valleys and mountains; zones of tropical heat and regions of eternal ice. And were we by violent measures to divide wealth equally, we should accomplish nothing but

harm; in a little while there would be inequalities as great as before.

This, in substance, is the teaching which we constantly hear. It is accepted by some because it is flattering to their vanity, in accordance with their interests or pleasing to their hope; by others, because it is dinned into their ears. Like all false theories that obtain wide acceptance, it contains much truth. But it is truth isolated from other truth or alloyed with falsehood.” (SP, p. 50)

Another expression of George’s conviction that the producer deserves his rewards would indicate, it seems to me, endorsement of unlimited inheritance:

“This and this alone, I contend for — that he who makes should have; that he who saves should enjoy. I ask in behalf of the poor nothing whatever that properly belongs to the rich. Instead of weakening and confusing the idea of property, I would surround it with stronger sanctions. Instead of lessening the incentives to the production of wealth, I would make it more powerful by making the reward more certain. Whatever any man has added to the general stock of wealth, or has received of the free will of him who did produce it, let that be his as against all the world — his to use or to give, to do with it whatever he may please, so long as such use does not interfere with the equal freedom of others. For my part, I would put no limit on acquisition. No matter how many millions any man can get by methods which do not involve the robbery of others — they are his; let him have them. I would not even ask him for charity, or have it dinned into his ears that it is his duty to help the poor. That is his own affair. Let him do as he pleases with his own, without restriction and without suggestion. If he gets without taking from others, what he does with his wealth is his own business and his own responsibility.” (SP, p. 87)

### Tax Reform

“As land cannot be hidden or carried off, a tax on land values can be assessed with more certainty and can be collected with greater ease and less expense than any other tax, while it does not in the slightest degree check production or lessen its incentive. It is, in fact, a tax only in form, being in nature a rent — a taking for the use of the community of a value that arises not from individual exertion but from the growth of the community.” (PFT, p. 288)

This quotation has special appeal for me because of its opening. The underground (unreported) economy, we hear, grows; it provides an increasing

total of untaxed income and consumption. Land, however, cannot be hidden. Does it not offer a base of taxation which defies attempted evasion?

George’s message on the taxation of land has much merit today, if only to permit some reduction of the taxes on man-made capital. Not a single tax!<sup>3</sup> (Local) government spending has grown beyond any feasible possibility of finance by tax on land alone. For his own time, I believe, he overstated the case. He oversimplified the ethical-equity issues. But the ratio of merit to defect was probably nearer 10 to 1 than 2 to 1. One can speculate about the differences today if communities had been able to finance local services from land rents, or the growth of land rents. If man-made capital had been subject to little or no property taxation, would we not have more such capital and the benefits it brings? Yes. Moreover, that capital would probably have been allocated more productively.

Many opportunities have been irretrievably lost. Yet the country will be around a long time yet. We and our children can have a better future, it seems to me, if local governments move in the directions George indicated a century ago. Not every state need act, nor every locality in those states which permit change.

The logic of reducing tax rates on structures and getting more revenue from land (location) values has been stated many times by many economists in many places. Land is one productive resource whose supply will not be reduced by a (high) tax! It does not move. Much of its value results from the actions of persons other than the owner, especially government spending on streets, sewers, schools and other such facilities.

One result would be increased influence on owners of land to put it to its best use. Holding land in a use far below its potential would involve higher costs. The character of use of each plot affects those around. Market forces reflecting the total of considerations, of opportunities, would be reinforced by tax forces. Progress toward even better use would be greater as owners had to pay larger amounts of tax on land. The lower tax on man-made capital, however, would increase the ability to build and to improve land.

A cut in the tax on new construction would tend to enlarge the demand for land. Such forces would raise land values and benefit owners. Landowners would find the development of their property easier to the extent that costs of capital would be reduced.

The present form of tax on man-made capital has serious disadvantages. Any full discussion of the adverse effects of high taxes on new and better buildings, on improvement and upgrading of older buildings, would require more space. These unfortunate results may be slight where the tax rate is one percent or so a year, but where the tax



rate is two or three or four percent on full market value *each year*, this burden is very high indeed in relation to the net real product of the capital. When the tax is compared with the flow of annual income, it emerges as a burden large enough to influence decisions, discouraging the flow of new capital.

The tax on man-made capital operates to discourage the construction of larger and better rooms, and thus to take advantage of the potential of the "law of the cube:" the expense of construction per cubic foot declines with size (through some meaningful range). "Excess" burdens result in that there are losses of real benefit to human beings that do not result in revenues for the government.

Taxing land values and so absorbing much, most, or all of the annual rent, aroused fear in George's time, and will today. Naturally, opposition must be expected when talk centers on a higher tax on anything. Yet the "Georgist" program involves the abolition or reduction of other taxes. Man-made capital would have been freed from property tax. Under modern conditions, at least in most areas, full taxing of structures seems out of the question; but substantial rate reduction can be achieved, and tax bills in total should not change.

Nothing in the proposal would lead to higher government spending. To repeat, total taxes would neither rise nor fall — what taxpayers would lose on one score, they would gain on another.

What about the politically sensitive issue of homeowners? Conditions differ from one locality to another, but generally, most homeowners are likely to be near the average in the relation of land values to man-made capital. There would be some large losers, and they would complain; and some large winners would reap windfalls; but the great majority would experience no great gain or loss.

I will close with a quotation that conveys economic wisdom of a high order, on property taxation and taxation in general:

"To abolish the taxation which, acting and reacting, now hampers every wheel of exchange and presses upon every form of industry, would be like removing an immense weight from a powerful spring. Imbued with fresh energy, production would start into new life, and trade would receive a stimulus which would be felt to the remotest arteries. The present method of taxation operates upon exchange like artificial deserts and mountains; it costs more to get goods through a customs house than it does to carry them around the world. It operates upon energy, and industry, and skill, and thrift, like a fine upon those qualities. If I have worked harder and built myself a good house while you have been contented to live in a hovel, the taxgatherer

now comes annually to make me pay a penalty for my energy and industry, by taxing me more than you. If I have saved while you wasted, I am mulct, while you are exempt. If a man builds a ship we make him pay for his temerity, as though he had done injury to the state; if a railroad be opened, down comes the tax collector upon it, as though it were a public nuisance; if a manufactory be erected we levy upon it an annual sum which would go far toward making a handsome profit. We say we want capital, but if any one accumulate it, or bring it among us, we charge him for it as though we were giving him a privilege. We punish with a tax the man who covers barren fields with ripening grain, we fine him who puts up machinery, and him who drains a swamp . . .

To abolish these taxes would be to lift the whole enormous weight of taxation from productive industry. The needle of the seamstress and the great manufactory; the cart horse and the locomotive; the fishing boat and the steamship; the farmer's plow and the merchant's stock, would be alike untaxed. All would be free to make or to save, to buy or to sell, unfined by taxes, unannoyed by the taxgatherer. Instead of saying to the producer, as it does now, 'The more you add to the general wealth the more shall you be taxed!' the state would say to the producer, 'Be as industrious, as thrifty, as enterprising as you choose, you shall have your full reward! You shall not be fined for making two blades of grass grow where one grew before; you shall not be taxed for adding to the aggregate wealth.'

And will not the community gain by thus refusing to kill the goose that lays the golden eggs; by thus refraining from muzzling the ox that treadeth out the corn; by thus leaving to industry, and thrift, and skill, their natural reward, full and unimpaired?" (PP, p. 434-435)

### Footnotes

1. Sources of quotations will be referred to as follows: PP for "Progress and Poverty," PFT for "Protection or Free Trade," and SP for "Social Problems."
2. I would like to acknowledge two recent contributions: Leland Yeager's address, "Henry George and Austrian Economics," at St. John's University, March 1982; and Terence M. Dwyer, "Henry's George's Thoughts in Relation to Modern Economics," *The American Journal of Economics and Sociology*, October 1982.
3. When George wrote, government in this country was predominantly local government. The national government had some veterans and military expenditures, carried the mails, operated some courts and a diplomatic service, but had few other functions. Costs were low. States did very little in the days before highways, local aid and other expenditures were common.