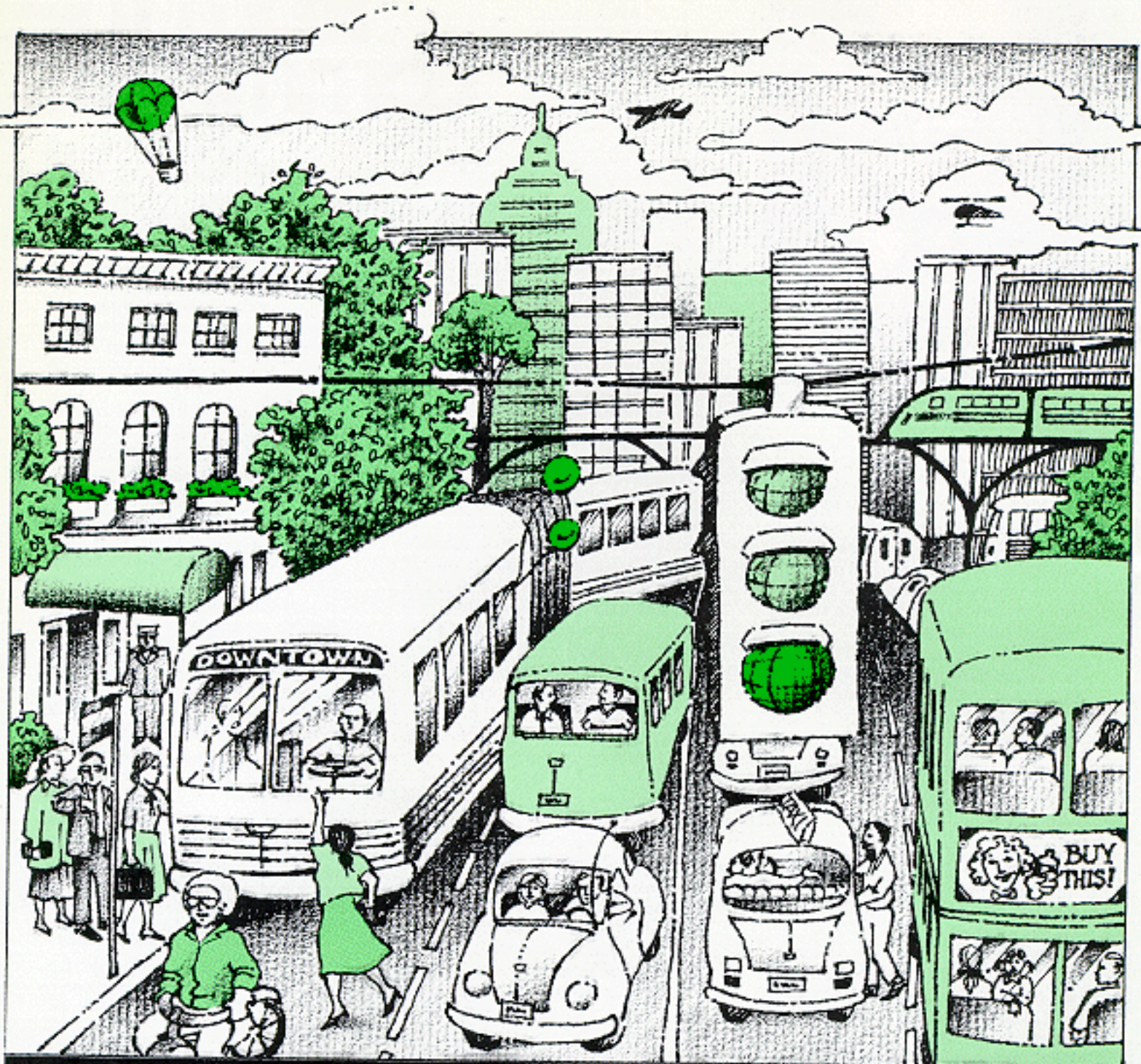


PERSPECTIVE



Governmental Actors & Factors in Mass Transit



View From The Commission

Dear Reader:

In 1976, when I was first elected Governor of Utah, few could have foreseen the critical changes that were to occur in American federalism. In the eight years I have served as my state's chief executive, a dramatic turnaround has occurred.

First, the long past World War II bull market for state and local spending, still going strong in the early 1970s, turned bearish by the mid-1970s. Between 1978 and 1983, state and local spending (when adjusted for inflation) actually decreased 1 percent. By contrast, before Proposition 13 and following the Korean War, state and local expenditures rose at an average annual rate of 4.5 percent in adjusted per capita terms.

For 30 years (1949-78), federal financial assistance was the fastest growing component of state-local revenue systems. Since 1978, federal assistance to state and local governments has declined in "real" terms. Expressed as a percentage of state-local budgets, federal aid fell from a high of 26 percent in 1978 to 20 percent in 1983.

Changes in intergovernmental financial arrangements were

matched by a swing in attitude. In the early 1970s, people still looked to Washington for solutions to domestic ills. By the late 1970s, on the other hand, many came to realize that national programs do not necessarily yield national cures. Criticism came from across the political spectrum. Confusion reigned over what are, and what should be, the responsibilities of the federal government as opposed to what is properly the role of state or local governments.

At the same time that federal government activities were being increasingly questioned, the states were showing their leadership abilities. States had been struggling with a host of negative legacies from the past. These legacies stemmed from the 1950s when the states were soundly criticized as poorly apportioned "horse and buggy" governments, and were saddled with a largely deserved poor reputation because of racial discrimination and segregation in the South and other parts of the country. In the 1960s, the states again were chastized for their insensitivity to urban needs. As a result of these charges, most states have spent the past two decades intent upon reform. While all have not progressed equally, and while room for improvement exists in all 50 states, as a group they were ready to face the challenges of the early 1980s.

Over the past few years, states have faced the challenge of severe federal aid cuts. Most have raised taxes and maintained state services. They stretched their intergovernmental dollars and made up for shortfalls in federal assistance in critical areas.

States were key participants in the national debate over the Reagan Administration's "New Federalism" proposals and, although agreement was not reached, the states are now leading the way toward a "de facto New Federalism" in which more and more of our important domestic decision-making is taking place in state capitals rather than in Washington.

During my eight years as governor, I have been part of the beginning of a new era in intergovernmental relations. The states should receive high marks for their records in the early '80s, both for keeping their own houses in order during times of economic hardships, and also for assuming leadership roles in the national debate over federal fiscal problems. In my tenure as chairman of the National Governors' Association, state leaders widened their scope of interest to include federal budgetary priorities and, although these priorities are still being established, I am confident that at least they are being set within the context of a stronger federal system.

The Advisory Commission on Intergovernmental Relations, on which I serve, marks its 25th year this September of chronicling intergovernmental events and pointing the way to change. I commend the Commission for so ably fulfilling its original mandate.

Scott Matheson
Governor
State of Utah

PERSPECTIVE

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Intergovernmental Focus

Congress Limits Municipal Antitrust Exposure

The last few months have witnessed a flurry of activity at the national level concerning municipal liability under federal antitrust laws. Under similar legislation adopted by both the Senate and the House, local governments, their officials, and private parties directed by localities will be exempted from paying damages under certain conditions, but not from injunctions requiring the offending actions to cease.

Municipal liability under antitrust laws was first enunciated in the Supreme Court's **Lafayette** decision (1978) and was then underscored and broadened by the **Boulder** ruling four years later. Prior to these decisions it was widely assumed that local governments, like the states, were immune from any law suits filed under **Sherman Antitrust Act**. The new standard provides that local governments and their officials can be sued in federal courts under the **Sherman Act** for conduct alleged to have anti-competitive effects; that their actions can be temporarily or, if they lose the lawsuit, permanently halted; and that they are liable for three-times the monetary damages proven plus the harmed-party's attorney's fees.

Numerous groups have decried this broad exposure—arguing that it seriously and unnecessarily hampers governance by localities—and have urged that solutions be implemented at both the state and national levels. Bills providing immunities or exemptions from damages under the **Sherman Act** were introduced in both the House and Senate, and hearings had been held by the respective Judiciary Committees. But these hearings attracted the attention of few members.

Interest picked up in January 1984 following a jury ruling in the **Grayslake** case that the actions of two local governments and three of their officials had violated federal antitrust laws in a fairly routine land use and sewerage permit case. Damages of \$9.5 million were claimed and, as ex-

isting laws require, were automatically trebled to \$27.5 million. Then in May, the Federal Trade Commission (FTC) filed lawsuits under the **Sherman Act** against the cities of New Orleans and Minneapolis asserting that their taxicab regulatory practices were unreasonably anticompetitive. These two events gave the issue an immediacy and a focus. Congress responded quickly, moving simultaneously along two tracks.

One track, the more recent of the two, included efforts to restrain the FTC from suing municipalities. First, Representatives Sabo (MN) and Boggs (LA), respectively, attached an amendment to the 1985 appropriations bill for the FTC, Justice, and Commerce Departments (H.R. 5712) blocking the agency from using federal funds for these lawsuits. This amendment narrowly survived the House Appropriations Committee and the full House.

On the Senate side, Senator Hollings (SC) offered an amendment to the appropriation bill that would have also restricted FTC action, but the amendment was soundly defeated in that chamber. The two appropriations bills—one restricting the use of FTC funds, the other not—went to conference. Conferees from both houses retained the FTC-limiting amendment. On August 8, the House overwhelmingly approved the Conference Report on H.R. 5712, the **1985 Appropriations Bill for the FTC, Justice, and Commerce Departments**. The Senate approved the Report the following day and it was submitted to the White House where it awaits final action.

Still to be reckoned with, however, is the broader concern of protecting local governments, their officials, and private parties acting with them from liability under federal antitrust laws. The FTC had only sued two governments and in these cases no damages could be assessed; but more than 200 cases have been filed against local governments and their officials by private parties since **Boulder**. In

these cases, treble damages and attorney's fees were at stake.

Grayslake and the FTC uproar also served to mobilize forces along this second broader track. In June, the Senate Judiciary Committee approved S. 1578, introduced by Senator Thurmond (SC), which would relieve local governments, their officials, and private parties acting under appropriate governmental authorization from damage payments in suits filed under federal antitrust laws. S. 1578 was subsequently attached to H.R. 5712, the appropriations bill discussed above. Congress subsequently dropped this amendment from their report so that it could follow standard legislative processes.

On the House side, the full Judiciary Committee had been considering three bills authored by committee members and unanimously adopted H.R. 6027 sponsored by Representatives Rodino and Fish exempting municipalities, their officials, and properly authorized private parties from damage payments under the **Sherman Act**. This bill is very similar to the one sponsored by Senator Thurmond. On August 8, the same day it approved blocking FTC suits against local governments, the House overwhelmingly adopted H.R. 6027 by a margin of 414—5.

ACIR has been monitoring activity in this area by other concerned parties (see article in **Perspective**, Fall 1983, Vol. 9, No. 4). Two public interest groups recently adopted policy on municipal antitrust liability. On July 30 the National Governors' Association stated: "Congress should amend the federal antitrust laws to grant immunity to all its units of local government equal to the immunity held by states." This position mirrors ones held by numerous groups representing local governments and officials. A few weeks earlier, the American Society for Public Administration adopted policy urging Congress and state legislatures to enact "legislation that would afford the same immunity status and exemptions from liabilities under the antitrust laws for local

government officials and local general purpose governmental units as is now enjoyed by the states . . . " |and| prohibit the recovery of money damages . . . " from those governments or their officials.

Single Audit Bills Advance

"Uniform Single Financial Audit Act" legislation to simplify and standardize the financial auditing requirements for federal grants and other assistance passed the Senate last November and the House in May.

Both measures, S. 1510 and H.R. 4821, would require an organizational-wide audit of federal funds be done by state and local governments receiving federal assistance. The measures would improve the financial management of federal assistance programs and would strive to relieve state and local governments and nonprofit organizations of costly paperwork burdens due to conflicting, redundant, and sometimes unreasonable audit requirements under certain intergovernmental programs. These measures also require that the national government pay its share of auditing expenses.

The three major distinctions between the Senate and House bills—the amount that triggers an audit, the frequency with which an audit will be conducted and the amount that triggers the specific compliance test—still need to be resolved.

The Advisory Commission on Intergovernmental Relations supports the single audit concept. In 1981, the Commission's study, **Fiscal Management of Federal Pass-Through Grants: The Need for More Uniform Requirements and Procedures**, recommended that Congress pass legislation to (1) provide for improved coordination of audits and prescribed appropriate means for reimbursement, (2) standardize and streamline administrative requirements, and (3) consolidate federal programs which create unnecessary requirements for recipients.

Treasury Study Underway, ACIR Participates

When Congress reauthorized the General Revenue Sharing program last year, it also ordered the Secretary of the Treasury to study a number of issues in intergovernmental fiscal relationships and to report his findings to Congress by June 30, 1985. The Treasury Department is required to consult with certain organizations, including ACIR, in planning the studies and may include them in the actual research. An Advisory Group on the Studies of Federal-State-Local Fiscal Relations, which includes officials representing 22 organizations of state and local governments, has been formed and had its first meeting in July.

Commission staff members are working on two parts of the Treasury study. The first will examine the concept of returning revenue sources to state and local governments along with responsibility for programs now funded by the national government. Once realistic revenue turnback and program trade-off proposals are developed, the impact on each state will be estimated. The study will also evaluate options for dealing with the fiscal mismatch that occurs when the costs of the programs being re-assigned are far greater or smaller for certain states than the proceeds generated by the revenue sources being returned.

ACIR staff will also report on the intergovernmental impact of deducting state and local government taxes from the federal individual income tax. As required by the legislation, the study will also examine state-by-state effects of exchanging revenue sharing increases for some changes in the deductibility provisions.

New Crossover Sanction Adopted to Raise Drinking Age

On July 17, 1984 President Reagan signed legislation designed to compel all states to adopt a minimum drink-

ing age of 21 or have their federal highway aid reduced by up to 10% by 1987. Initially, the President had been reluctant to support such a heavy-handed approach to changing state drinking age laws, preferring instead to continue an existing program of incentives for state actions against drunk driving. In the view of many, stronger federal action on this issue appeared unnecessary because 20 states had already raised their drinking ages since 1980, and only eight continued to permit alcohol consumption at age 18. Nevertheless, the drinking age issue proved to be as popular with Congress as with the state legislatures and, on the advice of Secretary of Transportation Elizabeth Dole, the President reversed his opposition on June 13, 1984 and came out strongly for federal sanctions to enforce a national drinking age. With the President's backing, the legislation sailed through Congress within a month.

Because of its fiscal penalties, P.L. 98-363 belongs to a select group of highly coercive intergovernmental regulations known as crossover sanctions. Crossover sanctions impose fiscal penalties in one federal program area in order to influence state and local policy in another. Thus, a failure to comply with the requirements of one program can result in the reduction or termination of funds in another, separately authorized program. As detailed in ACIR's recent report on **Regulatory Federalism: Policy, Process, Impact, and Reform** (A-95), such crossover sanctions have been used with particular frequency in the transportation field, where they were first adopted in the **Highway Beautification Act of 1965**.

Governmental Actors and Factors in Mass Transit

by Bruce D. McDowell

Once a primarily private enterprise, mass transportation in the U.S. has become predominantly a governmental activity over the past two decades, involving at least \$12 billion in public funds each year. Yet, many public transit agencies are now in deep financial trouble, and established intergovernmental arrangements for footing this bill are shifting.

This article is based on an ACIR study which examines the challenges faced by federal, state, and local policymakers who are seeking to preserve and improve the mobility of their constituents in the nation's 335 metropolitan areas. The article identifies many of the transit industry's current problems and new approaches, examines the key intergovernmental issues, and suggests a range of policy options for consideration.

TRANSIT IN TRANSITION

The transition from private to public transit was accompanied by a dramatic evolution in goals and motives: from profit-making to such public ends as reducing traffic congestion, air pollution, and noise; conserving energy; and improving mobility of special groups like the poor, the handicapped, and the elderly. These newer goals have required rapidly rising public subsidies. The size of these subsidies is now being questioned as public resources at all governmental levels have become increasingly scarce.

Having made the leap, in the space of two decades, from an almost wholly private to an almost wholly public endeavor, mass transit has become even more intergovernmental in character. In the process, local government expenditures for transit have become common throughout urban America, rather than being limited to the largest cities. In addition, federal aid for transit expenditures has moved from almost zero to about \$4 billion annually in the space of just two decades. As a result of this federal aid, metropolitan transit planning has been established in all of the nation's metropolitan areas. And, by 1982, all 50 states had established transit programs; with budgets for these mostly new programs (created since 1970) totaling \$1.2 billion in 1980, \$1.9 billion in 1982, and \$2.4 billion by 1983. This state funding largely takes the form of aid to local systems.

As we approach mid-decade, mass transit appears poised for further readjustments. Among the pressures for change are the following:

- Due to lack of maintenance, many public transit facilities and vehicles are falling into disrepair at an alarming rate.
- Public transit operating subsidies are often felt to be at unsustainable levels and to be benefiting the affluent more than the poor.
- New rail systems may no longer be feasible to build and operate.
- Transit may not be viewed as a national responsibility and might be turned back to the state and local governments. Federal budget cuts for transit operating subsidies have been made and the Reagan Administration has sought to phase out federal funds for operating costs altogether.

Coupling these specific pressures with the overarching demographic, economic, political, and technological changes that are affecting the environment in which public and private decisions are made suggests:

- devising more flexible transit systems to meet in-

- creasingly diverse and dispersed needs;
- constructing fewer larger new subway systems (and extending older ones), while better maintaining and using existing ones;
- shifting in densely populated areas to less costly alternatives like light rail, busways, HOV lanes, and ridesharing;
- increasing reliance on the fare box to pay transit costs;
- less reliance on the national government, coupled with larger roles for the state and local governments; and,
- greater use of private sector transit providers, and rethinking public regulations affecting transit.

This highly fluid setting requires a flexible view of transit. Thus, ACIR's definition of transit is open-ended. It includes the traditional forms of transit (conventional bus and rail services) along with the many varieties of paratransit (See Chart 1 for a list of components).

The ACIR study foresees an unusual amount of institutional, financial, and service adaptation in the field of transit. As a result of shifts in the forms and amounts of intergovernmental transit aid, local governments and metropolitan organizations probably will acquire increasing responsibilities for raising funds, redesigning transit services, improving productivity, and coordinating activities with the private sector.

EASING FINANCIAL PRESSURES: FOUR APPROACHES

Many changes in organizing, financing, and providing transit services have been tried in recent years to ease financial pressures. These innovations fit into four categories: (1) increasing the productivity of conventional services; (2) spinning-off to paratransit—either public or private—those demands for service not efficiently met by conventional transit systems; (3) improving coordination among urban transportation modes; and (4) establishing more equitable and reliable revenue sources.

CHART 1
Types of Transit

CONVENTIONAL	PARATRANSIT
Bus	Carpool (organized)
Rapid Transit (heavy rail)	Vanpool
Street Car (light rail)	Social Services Van
Trolley Bus	Minibus
Ferryboat	Taxi
Commuter Railroad	Jitney
	Dial-a-bus
	Subscription Bus
	Shuttle
	Courtesy Car

Source: ACIR Staff.

Stretching Dollars for Conventional Transit

"Efficiency measures" like technological innovations, operational improvements, and upgrading employee training and morale are the most obvious ways to increase transit productivity. When ACIR surveyed a broad cross-section of city, county, transit authority, metropolitan planning, and transit union officials in 56 metropolitan areas (spanning 48 states), it found that increasing the overall productivity or cost-effectiveness of regularly scheduled bus and rail systems was the most often-cited need of transit systems.

Respondents to the ACIR survey may have been reacting to a perceived drop in productivity that occurred in the early 1970s. Although acknowledging negative productivity in transit during that period, James Graebner, President of the American Public Transit Association (APTA), testified on the reversal of this trend:

... during the growth in federal operating support from 1975 to 1980, basic measures of productivity and efficiency in transit have improved markedly . . .

- passengers per employee *increased 15%*;
- passengers per vehicle mile *increased 18%*;
- operating expenses increased only 5%, when adjusted for inflation;
- expense per passenger *decreased 15%*, when adjusted for inflation.¹

Mr. Graebner further challenged the view that the transit industry has not been flexible:

A close review of the industry today would reveal increasingly wide-spread and successful innovations in service development, including the use of contract services, private providers, new fare structures, the wide-spread adoption of performance-based management techniques and broad-based efforts at cost control, particularly in the labor area.²

Despite progress in making transit operations more efficient, ACIR's survey found that officials (other than labor representatives) most often cited labor-related concerns—costs, rules and disputes—as impediments to further progress. This emphasis is not surprising given the labor intensity of transit—labor represents from 60% to over 80% of operating costs, depending upon the system. The concentration of transit services in the morning and evening rush-hour peaks makes it difficult to control operating costs while treating labor fairly. Split shifts, which result in eleven-hour to thirteen-hour days for full-time drivers who may actually drive only eight hours, raise questions about overtime pay (at time-and-a-half rates) and using part-time drivers. Such issues are settled by federally-protected collective bargaining negotiations and are set in long-term union contracts.

¹ACIR hearing, "Mass Transportation in the 1980s," Washington, DC, June 6, 1984.

²*Ibid.*

Robert Malofsky, speaking for the Amalgamated Transit Union, stressed that, since 1974, "transit management, in cooperation with labor, has achieved meaningful cost savings and has instituted a variety of measures designed to increase productivity while providing fair and reasonable compensation to transit workers."³ In labor's defense, he also emphasized findings from several sources indicating that (1) federal operating assistance has not caused rising transit costs; (2) that transit wage increases have not been disproportionate to those of other public employees and the industrial workforce; and (3) that local bargainers in recent years have accommodated productivity gains under the existing labor-management framework.

Encouraging Ridesharing

Since the 1973 oil crisis, ridesharing (usually organized carpools or vanpools, but also including shared taxis, social services vans, and other modes) has increased substantially. Before that time there were few public programs encouraging this activity. Now, publicly organized and operated ridesharing programs are operative in 256 urbanized areas covering 48 states and the District of Columbia. In addition, 754 private companies sponsor vanpools for their employees. The total number of public and private vanpools is well over 14,000, and ridesharing activities are supported by more than 1,000 fringe parking lots which were built for commuters with state assistance. The 1980 Census found that ridesharing accounts for three times as many of the nation's worktrips as conventional transit, and nearly a third as many as the dominant single-occupant private cars. Only 6.4 percent of such trips are made by conventional transit (see Table 1).

Although some analysts view paratransit as a substitute for conventional transit systems,⁴ most transit experts see ridesharing as supplementing conventional high-volume services in urbanized areas. Used carefully and creatively, so as not to subtract from conventional services, paratransit, it is argued, can help control transit costs by: (1) providing alternative services that may competitively exert downward pressures on costs; (2) providing economical feeder services from low density areas to strengthen ridership on conventional systems; (3) leveling costly peak demands on conventional systems; and, (4) allowing conventional systems to shed costly low-volume routes and services designed to meet special needs like those of the handicapped. If most or all of the costs of paratransit services are picked-up by users or private companies—as happens in a number of cases—then public transit budgets are relieved in still a fifth way. Such diverse areas as Los Angeles, San Francisco, Dallas-Fort Worth, Minneapolis-St. Paul, Knoxville, and Norfolk offer good examples of integrating paratransit modes into the total transit picture. Greater use of ridesharing to increase transit productivity was

Table 1
**WORKTRIPS IN THE U.S.
1980**

Worktrips made by:	Percent
Auto (drive alone)	64.4
Ridesharing	19.7
Transit	6.4
Walk	5.6
Other Means	1.6
Work at Home	2.3
	100.0%

Source: U.S. Bureau of the Census, 1980 Census of Population.

favored by 65 percent of all respondents in the ACIR survey.

Orchestrating Services

Coordinating transit services is frequently complicated by the patchwork of providers that operate in many metropolitan areas. For example, many paratransit programs are private, although eight percent are administered by public transit agencies, and other public agencies are involved in still larger numbers of these programs. In addition, conventional transit services are supplied by multiple operators in over one-third of all metropolitan areas (see Table 2). By far the largest number—nearly two-thirds—of transit operators are municipal, but many of the large bus and subway systems are run by special authorities which together account for half of all public transit expenditures (see Table 3). Counties and states operate fewer of the regularly scheduled systems. Altogether, public operators run about 95 percent of all the conventional transit services, even though about half of all operators (mostly small bus companies) remain private.

The main goal, of both conventional transit and paratransit—moving as many people as possible in high occupancy vehicles (HOV)—can be accomplished by a combination of policies that (1) make needed services available, convenient, and comfortable; (2) keep fares affordable and competitive with automobile costs; and, (3) accommodate unimpeded HOV use via special rights-of-way. The higher density of urban development, the more necessary it is to coordinate all the transit and paratransit operations with one another and with programs that allocate roadway and parking space. Both space and time cost money, so the best solution is one that moves the largest number of people into and out of their destinations the quickest, using the fewest vehicles and devoting the least space to transportation facilities.

The benefits of transit, it is argued, are most fully realized when various operators, highway and parking programs, and land development are all harmonized. Respondents to ACIR's survey rated deficiencies in such coordination "serious" or "intractable" less than half

³*Ibid.*

⁴ Gabriel Roth, et al, **Free Enterprise Urban Transportation** (Learning From Abroad Series, Vol. 5) Transaction Books.

the time. Yet, 52 percent in the Northeast found coordination with parking policies ineffective, 38 percent in the South and West found coordination with land use inadequate, 37 percent in the Great Lake/Plains region reported significant problems in coordinating diverse transit agencies, and 27 percent in the Northeast found harmony with auto toll policies seriously deficient. Generally, such problems were less serious in small metropolitan areas than in large ones. This substantial, although not uniform or overwhelming, need to improve coordination in metropolitan areas spurred ACIR survey respondents to solidly support the following actions:

- 83 percent wanted stronger strategic planning processes to examine the nature of transit services needed to meet future needs;
- 68 percent saw a need for greater use of informal coordination techniques like intergovernmental task forces, committees, meetings, and staff sharing;
- 62 percent placed greater stress on shorter-range planning concerns like maintaining transit equipment and facilities as well as operational improvements; and
- 53 percent sought to expand the scope of planning to encompass current financial, regulatory, and public-private partnership issues.

Revenue Concerns

Transit in the United States slid from profitability before and immediately after World War II into public subsidization. Fares, on the average, now cover only about 40 percent of conventional transit operating costs and none of major capital costs. Currently, about two-thirds of transit expenses are for operations; one-third meet capital needs.

Fares (plus other operating revenues) and local subsidies together cover 70 percent of *operating* costs. State and federal funds cover the rest (see Table 4). Recently, the proportion of operating costs covered by fares has begun to stabilize and local, as well as state, assistance is rising to compensate for the shrinkage in federal operating assistance.

Capital costs, in contrast, are met in quite a different fashion. For most places, the national government picks up 80% of them and one penny of the federal gasoline tax is now dedicated to capital acquisitions for transit.

Dedicated local taxes are becoming fairly widespread, reliable means of financing transit. Among all respondents in the ACIR survey, 78% favored establishing such taxes in more places, or increasing present rates. Next to encouraging greater private-sector participation in financing transit, dedicated taxes were the most popular revenue-raising proposal among survey respondents.

Nevertheless, respondents noted that it would be quite difficult in many areas to raise transit fares further without losing riders (79%) and that existing legal limitations are seriously constraining the local ability to tax (52%). Still, 62% of all respondents supported efforts to raise fares and 60% supported using special

Table 2

Number of Fixed Route, Scheduled Transit Operators Per Urbanized Area: 1981

Number of Operators Per Area	Urbanized Areas	
	Number	Percent
0	16	5.7
1	166	59.5
2-10	87	31.2
11-20	6	2.2
21 +	4	1.4
TOTALS	279	100.0%

Source: U.S. Department of Transportation, Urban Mass Transportation Administration, **A Directory of Regularly Scheduled, Fixed Route, Local Public Transportation Service in Urbanized Areas Over 50,000 Population** (Washington, DC: U.S. Government Printing Office, August 1981).

Table 3

Public Transit Systems in the U.S.—1982

Public Systems	Total Transit Expenditures			
	Type of Operator	Number	Percent	(\$ million) Percent
State	7	1.2	\$ 2,440.5	16.2
County	85	15.3	772.6	5.2
Municipal	354	63.7	4,239.5	28.2
District or Authority	110	19.8	7,586.2	50.4
TOTAL	556	100.00	\$15,038.8	100.00

Source: 1982 Government Finance Computer Tape, U.S. Bureau of the Census.

Table 4

Transit Financing: 1980

Source of Revenues	For Operating Purposes ¹	For Capital Purposes ²
Fares	41%	—
Other Operating Revenue	2%	—
Local Governments	27%	12.3%
State Governments	13%	9.0%
Federal Government	17%	78.7%
TOTAL	100%	100.0%

¹APTA, **Transit Fact Book: 1981**, p. 45

²U.S. Department of Transportation, Urban Mass Transportation Administration, **National Urban Mass Transportation Statistics Section 15 Report**, June 1982. Note: These data ignore capital projects that are carried out without federal support.

benefit districts to capture part of the increased locational values generated by transit services. In contrast, only about 32% of all respondents favored greater reliance on local general revenues, while nearly half opposed this measure. These results probably reflect pressures on this source for other purposes and the fact that most citizens do not use transit themselves and therefore find it hard to favor higher local subsidies from general revenues.

Support is widespread for stabilizing the share of costs met from the farebox. Industry analysts generally recommend yearly fare revisions to reflect more closely costs and the market value of services, a view shared by a margin of almost five-to-one among respondents to ACIR's survey. In addition, the survey found significant support for greater use of distance-based fares and peak-pricing, especially for bus services, and a recent survey by the U.S. Conference of Mayors found two-thirds of the mayors queried supporting fares that provide between 30% and 50% of needed operating costs. Nearly half of these mayors thought the level should be between 40% and 50%. The responses to a 1981 survey of state transit policy-makers and local transit operators suggest that, on the average, users should cover about one half of transit costs. Allowing fares to reflect market value and costs raises the questions of equity. Even at 50% of operating costs, fares may be too high to allow mobility for certain needy groups.

The importance of federal and state aid was underscored by ACIR's survey results. Real or expected losses of intergovernmental aid were considered to be a serious or intractable difficulty by over 82% of ACIR's survey respondents. By contrast, if federal aid were continued at present levels, 77% of all respondents thought they could improve or at least maintain existing levels of transit mobility. If all federal aid were eliminated, nearly 90% thought service levels would decline. In addition, 65% of all the respondents felt that the lack of state legislative support was a serious handicap for their programs.

Tensions and Options

The transit industry today faces a number of stresses and strains including conflicts that arise between diverse transit and paratransit service providers who are seeking a competitive edge; tensions that are created by efforts to coordinate or consolidate independent transit systems; opposition that occurs when transit workers strive to maintain and improve their position; the difficulties that emerge when groups try to meet federal requirements; and pressures that mount when attempting to stabilize transit financing. Resolving these controversies might help create a stronger transit industry.

Service Competition. Although buses, subways and commuter railroads can compete favorably with autos in high density urban areas, they cannot readily do so in suburbs or other areas where travel is dispersed. Yet, transit is needed throughout metropolitan America because one-third of the population consists of those who are too old, too young or too handicapped to drive,

“ Yet, transit is needed throughout metropolitan America because one-third of the population consists of those who are too old, too young or too handicapped to drive, and many others cannot afford cars or prefer not to drive. ”

and many others cannot afford cars or prefer not to drive. To cite one authority,

The challenge, then, is to create the equivalent of automobile-mobility for everyone . . . small vehicles are likely to predominate in low-density locales. The most promising systems will use automobiles and auto-like vehicles as public transit vehicles, operating in the shared-ride, taxi, and jitney modes.⁵

Ridesharing programs, on the increase for the past decade, now far outstrip conventional transit, as noted previously.

Although some public transit agencies have encouraged paratransit alternatives to complement their conventional services, many feel that service alternatives have received undue attention. As James Graebner emphasized:

In the next five years over \$36 billion in transit capital investment will be required to finance the rehabilitation of badly outworn facilities and equipment, improve existing services, and provide basic levels of service to growing communities across the country.

Over eighty percent of this \$36 billion is associated just with maintaining current levels of service or meeting existing demand. In the face of such staggering and essential capital investment requirements, "adaptation" seems to be a rather anemic theme. To meet these needs we must set the euphemisms about infrastructure and federalism aside and stop looking at the margin for small solutions to large problems.⁶

APTA's maintains that more money is needed for conventional transit and that such funding should be directed to the publicly-owned transit operators who provide 95 percent of these traditional services.

Competition, coordination and policymaking. The competition between conventional transit and para-

⁵Melvin M. Webber, "Viewpoint," *Planning*, July 1984, p. 42.

⁶ACIR hearings.

transit options might be mediated by requiring both to meet certain standards. A so-called “full service” transit agency—one responsible for both types of services—might be in the strongest position to calculate and directly implement the most cost-effective and satisfying mixture of services. Some observers, however, believe that ridesharing options often would be short-changed in such a setting because of conventional transit’s overwhelming financial needs and labor’s support for maintaining conventional transit jobs.

An impartial metropolitan-wide transit funding agency that is composed of local elected officials and is unfettered by operating responsibilities might make the analyses and allocate funds among the various types of transit. Some analysts see such organizations as having the best chance to balance conflicting demands. On the other hand, if this type of authoritative revenue-raising and dispersing agency is politically impossible in any given metropolitan area, the official “metropolitan planning organization” (MPO) designated to meet federal planning requirements could be used on a voluntary basis to perform similar analyses and to recommend nonbinding funding allocations.

In general policymaking in metropolitan areas is fragmented, and this fragmentation generally increases with the size of the area. The average metropolitan area has about 100 local governments of all types, most of which carry on activities that affect transportation directly or indirectly. About one-third of the nation’s metropolitan areas have multiple agencies providing conventional transit services plus others providing paratransit activities. In addition, the national government offers more than half-a-dozen different types of grants that may be used to help meet transit needs, and another four to support urban transportation planning.

The federally-mandated mechanism for coordinating this multitude of diverse decision points has been the MPOs. These voluntary advisory bodies representing all the local governments and public transportation agencies (highway as well as transit) in the area, plus state transportation officials, are officially designated for each area by the governor (or governors, when the metropolitan area crosses state lines) in consultation with local officials. The designation makes an MPO responsible for preparing a comprehensive transportation and land-development plan for the whole area, and for translating this plan into a multi-year program of scheduled transportation improvement projects that will be eligible for federal funding.

Although MPOs sometimes are key agents in developing areawide transportation strategies, they usually play a more limited mediating role. The MPO’s job is frequently confined to checking-out potential conflicts between highways and land developments and sometimes encompasses coordinating multiple transit operators in the metropolitan areas—on a mutually agreeable basis. The MPO role is much more circumscribed if the area has an areawide “full service” or “transit funding” agency that prepares complete transit plans encompassing both conventional transit and para-

transit, and has the authority to implement those plans.

Some analysts urge a stronger MPO role. They note the more general scope of responsibilities these organizations possess in comparison to the single-purpose transit agencies, and argue that overall transportation and related land-development strategies should be shaped by broader organizations. About 55 percent of the nation’s MPO’s are general purpose regional councils (frequently called councils of governments) and are in a good position to bring their areas’ generalists (representing both highway and transit agencies) under one roof. If these organizations had budget powers over the transportation agencies, it is reasoned, they could effectuate their broad-based strategies.

Despite these arguments, local governments tend to remain too independent to allow MPO’s to expand beyond technical analysis and advisory roles. ACIR’s mail survey and field interviewing both revealed continuing sentiments for the present limited MPO role. The support cited earlier for stronger strategic planning, more informal coordination, shorter range planning, and a broader scope of planning is all directed at strengthening the technical planning process, not giving MPOs greater power. In fact, the survey question that asked if MPO’s should be given greater authority drew more opposition (34%) than support (25%). However, slightly over half of the respondents liked the concept of setting up a transit funding agency that could allocate funds among competing transit service delivery organizations (public and private) without being encumbered with service delivery duties of its own. Only 15 percent of respondents perceived this suggestion to be disadvantageous, with much of this opposition coming from MPO, western, and small-area officials.

The consequences of fragmented land-development and transportation decisionmaking in metropolitan areas demonstrate the continuing need for an intergovernmental mechanism to coordinate planning and to resolve conflicts. Fragmentation is accentuated by the separateness of the several different federal programs that aid transit and urban transportation planning. Most aid programs are not funneled through a single body, thereby diffusing responsibility for coordinating transit systems.

“ The consequences of fragmented land-development and transportation decisionmaking in metropolitan areas demonstrate the continuing need for an intergovernmental mechanism to coordinate planning and to resolve conflicts. ”

The Surface Transportation Assistance Act of 1982, which established the new transit block grant, retains both operating and capital subsidies as well as the flexibility to use several federal transit and highway grant programs in a coordinated fashion if the diverse parties receiving them can agree to do so. This approach has the support of all the major interest groups at present, but some are willing to consider even further program consolidations in the future.⁷

Those who worry that the pendulum has swung too far toward the public sector, however, point out that government programs are sometimes unwieldy in comparison to greater efficiencies that can be achieved in the marketplace. Transit would be improved, they argue, by further deregulation and by increased competition from small operators, rather than by consciously attempting to redirect public policy to take fuller advantage of a broader range of public and private service providers. Those who favor deregulation and greater private competition, as well as those who fear lost independence by individual localities and transit agencies, generally oppose stronger MPOs, full-service transit authorities, and areawide transit funding agencies.

Labor Role. Because labor is the largest cost factor in conventional transit, it receives a great deal of attention. When the first significant national transit aid program was enacted in 1964, a provision known as Section 13c was included to protect the collective bargaining rights and other benefits that unions had established with the privately owned transit companies then being bought out with public funds. All federally assisted transit systems operate within a typical labor-management relations framework.

This framework limits what management can do outside negotiated contracts to cut costs, increase productivity, or shift operations to paratransit or private service providers. Management frustration and labor insistence on maintaining its collective bargaining position are equally understandable. This issue is becoming more intense because of increased fiscal pressures on most transit systems.

Both labor's and management's needs might be met through greater involvement of union representatives in transit policymaking. There is very little such involvement now except within the contract negotiation setting. There seems to be some receptivity to this idea on both sides. The union representatives appearing at the ACIR hearing favored union representation on MPO and transit-agency governing boards as well as other types of policy involvement. The American Association of State Highway and Transportation Officials and the National Association of Regional Councils agreed with the principle of involvement but stopped short of endorsing the idea of governing board membership. The ACIR survey found 37 percent favoring expanded MPO representation, but 27 percent were opposed. About 90 percent of the union officials in the

survey responded favorably; the response of local government, MPO, and transit agency officials was tepid.

Views are also split concerning changes in Section 13c. The unions very strongly support the present requirement and defend its workability under present circumstances. The National League of Cities and the National Association of Counties have policies calling for: (1) UMTA to share with the Department of Labor in administering the requirement; (2) clarifying how the requirement relates to paratransit; and (3) closely tying contract settlements to labor conditions in the specific areas affected.

The ACIR survey found still other divisions of opinion about issues involving labor. For example, 65 percent of all respondents urged increased ridesharing (with its likely loss of union jobs) and 71 percent wanted rewards in labor contracts tied to productivity increases. Understandably, there was very little support for either technique by labor union respondents. In addition, 58 percent of all respondents said that high labor costs are among the greatest hurdles to be overcome in raising transit productivity, although only 16 percent of union respondents agreed. Finally, 60 percent of all respondents felt significantly restricted by Section 13c; only 12 percent of union respondents agreed.

Federal Conditions. "Federal money is not dirty, but it complicates the whole process of development," Thomas Larwin, executive director of San Diego's transit system, stated recently.⁸ San Diego avoided federal strings in building a new trolley line by simply not seeking federal assistance.

Many local officials have objected to a host of federal strings in addition to the previously-noted labor requirements. For example, half of the respondents in ACIR's survey felt the categorical nature of federal transit funds excessively restricted their use. Smaller proportions of the respondents felt excessively burdened by the wide range of collateral social policies—such as equal access for the handicapped, or set asides for minority business enterprise—that accompany federal transit aid (42 percent), and the "buy-American" policy that applies to purchasing transit equipment and construction materials (35 percent).

Other federally-imposed conditions that are not connected with grants raise serious concerns. Two of these are municipal antitrust liability and applying the federal *Fair Labor Standards Act* to transit operations.

On the antitrust issue, local regulations that restrain competition and lack explicit state authorization may be ruled antitrust violations. Regulating bodies and individuals violating these laws may be liable for paying triple the amount of any financial damages awarded by the court. The Federal Trade Commission has gone to court using the *Sherman Antitrust Act* to challenge taxi regulations in New Orleans and Minneapolis. The suit is to enjoin regulatory regimes (note, however, that fed-

“ No matter what increases occur in transit productivity, or what changes toward paratransit are accepted, or how much greater a private role is encouraged, funding for major conventional public transit systems will probably remain the central challenge to transit for the foreseeable future. ”

eral agencies cannot seek monetary damages against local governments). Congress is considering legislation that would exempt local governments from monetary damages, but would still leave their actions open to injunction. (See Fall 1983 issue of **Intergovernmental Perspective** for a complete discussion of this subject.)

Under the *Fair Labor Standards Act*, federal criteria rather than collective bargaining, local merit systems, or other local actions would set policies on such matters as overtime pay if transit jobs are found to be “non-traditional” government work. The U.S. Supreme Court is now considering two cases on this issue. (See Fall 1983 issue of **Intergovernmental Perspective** for a complete discussion of this case.)

Burdensome federal regulations related to transit were part of the Reagan Administration’s deregulatory drive. In fact, the requirement for providing access to handicapped persons (considered by many to be the most costly transit-related regulation) was substantially modified. Transit operators are now allowed to provide alternative services for the handicapped, negating the need to retrofit conventional buses and subways.

Finances: Still the Central Concern. No matter what increases occur in transit productivity, or what changes toward paratransit are accepted, or how much greater a private role is encouraged, funding for major conventional public transit systems will probably remain the central challenge to transit for the foreseeable future. Buses, subways, trolleys and commuter railroads will require considerable maintenance (including much that has been deferred in recent years), and will need to expand in growing geographic areas (especially in the South and the West). APTA’s estimate that \$36 billion is needed for new capital investment in these systems over the next five years is well beyond today’s annual funding level. It is difficult to identify the sources for additional funds. Pressures to cut the federal deficit seem certain to slow the growth in federal transit aid (if not reduce it in actual dollars). Recent growth in state funding for transit is encouraging, but the states are still junior partners in total contributions. The recent stabilizing of the share of costs covered by fares

also helps, but pushing fares too hard can badly hurt ridership.

In intergovernmental terms, this issue boils down to dividing-up financial responsibilities among the riders and the levels of government. Complex issues arise such as (1) devolving federal transit responsibilities along with some form of compensating revenue measures; (2) determining federal criteria for major capital investments; (3) designing fairer but more productive local fare policies; and (4) creating formulas to help localities within the same metropolitan area share their transit subsidy responsibilities more equitably.

The ACIR survey results cited earlier about the perceived need to continue state or federal aid at current levels, and the risks of losing substantial ridership if fares rise greatly above current levels, imply the need to maintain and improve local tax support for transit. Many innovative financing techniques—both state and local—are being tried. However, there is no theory that suggests what share should come from each source. Clearly, though, a stable equilibrium enhances the ability to plan and operate reliable services.

SUMMARY AND CONCLUSION

In the 1960s and 1970s, transit made the transition from private to predominantly public ownership. In the 1970s, a great infusion of federal assistance, spurred largely by the 1973 oil crisis, kept many transit systems in business and encouraged them to expand. By the late 1970s and early 1980s, transit had become heavily dependent on intergovernmental capital and operating funds but also had to accommodate the requirements that accompanied the money. Some systems tried to do without federal funds and some private operators found they could compete with public transit on certain routes. Ridesharing increased in dispersed urban settings. The near future is likely to feature even wider diversity. San Diego, which financed new trolley lines without federal assistance, is now seeking funds from Washington for expansion. Dallas voters agreed to tax themselves for transit rather than rely on federal grants for a new light rail system.

Mass transit and paratransit services are both essential elements in the nation’s urban fabric. They need to be better adapted to current development patterns, life styles, vehicle technologies, labor conditions, fiscal realities, and administrative arrangements. The Commission is exploring options for renewing the intergovernmental cooperation that will be required to keep the transit industry healthy in the years ahead. Future transit, according to C. Kenneth Orski, a former UMTA official and now a private transit consultant, is likely to involve “a burst of service innovation that will usher in a great variety of new transit services and service providers.” That burst will also bring stress, much of which will continue to be intergovernmental in nature.

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THE TAX REVOLT—ROUND II?

by Karen Benker and
Daphne Kenyon

1984 may prove to be the most important year for government tax and spending limitations since 1978, the year of the heralded "Tax Revolt" when citizen initiatives were used vigorously to curb government growth. Come this November there will be eight states with citizen initiatives or legislative referendums on the ballot aimed at adopting new tax and expenditure limitations (TEs) or modifying (generally strengthening) existing limits. These measures run the full gamut from rolling back property taxes, to capping state welfare payments at the national average, to mandating a popular vote before any state and local taxes can be increased.¹ In addition, the citizens' grassroots movement for fiscal responsibility is now setting its sights on the federal government and there have been renewed efforts urging states to join the call for a Constitutional Convention for a federal balanced budget. (See Table 1 for a description of the balanced budget initiatives and a listing of all state TEL measures on the November 1984 ballots.)

¹Strictly speaking, a tax and expenditure limitation or TEL simply limits the annual growth of government revenues or expenditures by a prescribed formula—generally tying permitted annual increases to the growth of the private economy. Other measures, such as those mentioned above, may have the same effect even though they are targeted to a specific tax source, program area, or legislative process.

The resurgent interest in the taxpayers' revolt has caught government watchers off guard. After all, states can hardly be accused of runaway spending behavior over the past few years—indeed, the opposite picture emerges from recent state fiscal practices. This article will provide reasons for this seeming paradox—the most important of which may be the evolution of the taxpayers' revolt from a radical concept into an institutionalized process.

A LOOK BACK AT THE TAX REVOLT ERA

1978 remains a turning point in public finance. It was the year that California's Proposition 13 focused national attention on the growing "Tax Revolt" which was to dramatically alter government spending practices. Following California's action, between 1978 and 1982, 14 states adopted tax and spending limitations, eight states passed legislation indexing their income taxes for inflation, and numerous states enacted sales tax exemptions for food, prescription drugs, and consumer utility bills. In fact during this time, 44 states decreased their tax burden as a percentage of personal income.

A new citizen activism demanding more responsive and accountable government apparently caught the imagination of taxpayers across the country. Lawmakers were eager to please, especially when large state budget surpluses were then beginning to accumulate and they could be used to fund some of these innovative and costly tax relief programs.

The introduction of tax and expenditure limitations attempted to enforce a new interpretation of government "fiscal discipline" which includes not only a balanced budget (long mandated by virtually all states), but also limiting growth in government spending to the rate of growth in the private economy. Following the wave of TEL adoptions, both TEL and non-TEL states changed spending habits—accelerating the end of a 25-year trend of real increases in the state public sector. Since 1978, little real growth in state spending has occurred. Two other important elements contributing to a reduction in the growth of state spending were the 1980 and 1981-82 recessions and the cutback in federal aid programs.

In fiscal year 1983, 38 states cut budgets and the same number of states raised taxes as recession-induced revenue shortfalls sharply reversed the earlier trend of granting tax relief.² Nevertheless, the "Tax Revolt" and its message have made a lasting impression on states evidenced by fiscal year 1985 general fund budgets. Despite having just weathered a severe recession which forced numerous budget cuts and postponement of capital projects and employee salary increases, the pent-up demand increased state FY 1985 spending by an average of only 7.9%.³ It was common during the 1970s for annual spending growth to range from 10% to 20%.

²National Conference of State Legislatures, *State Budget Actions in 1983*, Denver, CO, September 1983.

³National Governors' Association and National Association of State Budget Officers, *Fiscal Survey of the States, 1984*, Washington, DC, June 1984.

With this kind of fiscal discipline being exercised by the states, why does the tax rebellion appear to be re-emerging for a second round in 1984? A look at the types of pending limitations may provide some insight into why they are gaining popularity.

1984 ACTION

Briefly summarized, three states have already revised or reauthorized portions of their limitations (Alaska, Hawaii, Rhode Island) six states have limit revisions pending, (Arizona, California, Hawaii, Louisiana, New Jersey, South Carolina), while three states will be debating the merits of new tax and spending limitations (Michigan, Nevada, Oregon). The proposals that will appear on the November ballot are evenly split between those initiated by state legislatures and those initiated by citizens. The legislative referendums deal primarily with existing constitutional amendments and the citizen initiatives generally propose enacting new limits.⁴

⁴A citizen initiative is a procedure whereby voters initiate a statute, constitutional amendment, or ordinance and compel a popular vote on its adoption. A referendum, on the other hand, is a procedure whereby a legislative body refers an issue to the voters and compels a popular vote on its adoption.

New Citizen TEL Initiatives

In four states—California, Michigan, Nevada, and Oregon—citizen spending initiatives are now being considered.

Briefly summarized, the substance and status of these pending initiatives are:

- California's "Save Prop 13" would limit all state and local fee increases to the annual increase in the cost-of-living. This measure is receiving considerable public support and has qualified for the November ballot.
- Michigan's "Voters' Choice" would repeal the increase in personal income tax rates passed in 1983 and all other tax and fee increases imposed by state and local government units since December 31, 1981. (See below.) The petition has 16% more signatures than required to qualify for the November ballot, but as of this writing, the signatures have not yet been certified by the Secretary of State's office since some may not be legal.

**STATE TAX AND SPENDING LIMITATIONS—
PAST AND PENDING**



STATES WITH LIMITATIONS ADOPTED PRIOR TO 1984
 STATES MODIFYING MEASURE DURING 1984 LEGISLATIVE SESSIONS
 STATES WITH LIMITATION MEASURES PENDING

ACIR SCORECARD OF RECENT TAX AND

State	Legislative or Citizen Initiated	New TEL or Revision of TEL	Constitutional or Statutory	Status of TEL Proposal	Description of Limit
Alaska	Legislative	Revision	S	Agreement between governor and legislature	Selected inflation & population indices to be used in calculation of expenditure limit.
Arizona	Legislative	Revision	C	Passed by legislature; will be on November ballot	Proposal would (1) change base of the expenditure limit from 7% of total state personal income to 6.5%; and (2) establish an Emergency Appropriations Account.
California	Citizen— Proposition 36, "Save Prop 13" or "Jarvis 4"	Revision	C	Qualified for ballot	"Save Prop 13" would (1) restrict state & local fee increases to cover annual change in the CPI & require larger increases to be passed by 2/3 vote of the legislature or 2/3 of those voting in a local election; (2) employee pension contributions won't be allowed to be funded from collected fees; & (3) clarify 1978 property tax rollback & provide for retroactive rebates that will cost state & local govts. \$1.3 billion. (Prop 13 rolled back property taxes to 1975 levels and allowed 2% annual increase beginning in 1978, but courts interpreted this increase to begin in 1975.)
	Citizen— Proposition 40, Welfare Public Assistance Program	New	S	Qualified for ballot	This measure would limit state spending on welfare programs to the national average per capita expenditure, plus 10%. If it passes, welfare expenditures would be cut by \$1.5 billion.
	Citizen— Proposition 35, Balanced Federal Budget	New	S	Removed from ballot by State Supreme Court	Proposal would have required the California legislature to pass a measure calling for a federal constitutional amendment or constitutional convention to balance the federal budget. Otherwise, payment of legislative salaries would be suspended.
Florida	Citizen— Amendment One	New	C	State Supreme Court removed from ballot	This revenue limitation would have limited state and local revenues to the FY81 selected base year plus annual adjustments equaling two-thirds of the change in the Consumer Price Index not to exceed 5%. Limit could be exceeded only with voter approval.
Hawaii	Legislative	Reauthorization	S	Passed by legislature	Hawaii's constitutional expenditure limitation provides for an annual growth factor which is statutorily determined. This statute has been reauthorized until 1986.
	Legislative	Revision	C	Passed by legislature; will be on November ballot	This will repeal the surplus requirement from the constitution which mandates that if more than a 5% surplus accrues in two consecutive fiscal years, a tax refund is automatically provided.
Louisiana	Legislative	Replacement	C	Passed by legislature; will be on November ballot	Measure will replace current statutory revenue limit with a constitutional expenditure limit which will: (1) limit growth in general fund expenditures to 85% of the growth in personal income over 3 preceding years; (2) create a Stabilization Fund equaling 15% of prior year's revenues; & (3) create a Permanent Fund for long-term economic development.
Michigan	Citizen—"Voters' Choice"	New	C	Signatures submitted; certification pending	This amendment would (1) void all state or local tax or fee increases approved since December 31, 1981; (2) require a popular vote to adopt a new tax or make any changes in an existing tax that is revenue-increasing; (3) require a popular vote or 2/3 approval by the legislature to adopt a new fee or license or make revenue-increasing changes in existing fees or licenses; and (4) prohibit a local nonresident income tax rate exceeding 0.5%.
Montana	Citizen—Initiative 23	New	S	Qualified for ballot	Would direct the legislature to call for a constitutional convention to adopt a federal balanced budget amendment. If the resolution is not adopted in 90 legislative days, the legislature will remain in session without compensation and no power to recess.
Nebraska	Citizen—Petition 1	New	C	Both failed; insufficient signatures	Would have limited annual increases in state appropriations to one-half of the rate of increase in state personal per capita income, not to exceed 5%.
	Citizen—Petition 2	New	C		Would have limited property taxes to 1.5% of actual value of the property.

EXPENDITURE LIMITATION (TEL) PROPOSALS

State	Legislative or Citizen Initiated	New TEL or Revision of TEL	Constitutional or Statutory	Status of TEL Proposal	Description of Limit
Nevada	Citizen—"Property Tax Stabilization"	New	C	Qualified for ballot	Would: (1) limit annual property tax revenue increases to 5%; (2) require a $\frac{2}{3}$ s vote of the legislature or governing body and popular vote of the people to pass an increase or adopt a new state or local tax or fee; and (3) require a $\frac{2}{3}$ s vote of the legislature or a popular vote to approve debt authority.
New Jersey	Legislative	Reauthorization	S	Pending in legislature	New Jersey adopted a TEL in 1976 but the authorizing legislation expired in 1983. The legislature passed a similar limit three times and each time it was vetoed by the governor. The governor's bill would: (1) use a three-year moving average of the change in state personal income (legislative measure used prior year's change in state personal income); (2) exclude from the base federal funds, appropriations for capital construction, lease agreements, fringe benefits for state employees and bond obligations; and (3) allow adjustments for changes in federal policy.
Ohio	Citizen	New	C	Defeated by popular vote Nov. 83	Proposal would have repealed all state tax increases effective from January '83 including the 90% increase in personal income tax rates.
	Citizen	New	C	Defeated by popular vote Nov. 83	Proposal would have required all future tax increases to be passed by 60% of the legislative vote.
Oklahoma	Citizen—State Question 577	New	C	Failed; insufficient signatures	Would have (1) limited property taxes to $\frac{1}{2}$ of 1% of fair cash value based on 1982 appraisal and exempt individual personal prop.; (2) allowed 2% annual prop. tax increase; & (3) required $\frac{2}{3}$ s legislative vote to approve any state tax or fee inc. & $\frac{2}{3}$ s popular vote to approve any local tax or fee inc.
Oregon	Citizen—Ballot Measure 2	New	C	Qualified for ballot	Would (1) limit real property taxes to the lesser of 1.5% of 1981 assessed value or the amount levied for 1983-84, whichever is less; (2) limit annual property tax increases to 2%; (3) prohibit state and local governments from levying any new tax/assessment or increase existing tax/assessment unless approved by popular vote; (4) limit rate of fee or license to the actual cost of service provided; and (5) require state property tax relief for renters.
	Citizen	New	C	Failed; insufficient signatures	Would have changed Oregon's current statutory TEL into a constitutional requirement with these changes: (1) require a popular vote to increase limit; (2) surplus revenue may be transferred to a reserve fund not in excess of 10% of expenditures; (3) earmark $\frac{1}{3}$ s of a new 5% sales tax to this fund or use the sales tax for tax relief; and (4) cap the rate of income taxes.
Rhode Island	Legislative	Revision	S	Passed	This statute raised allowable annual increase of governor's budget request from 5.5% to 6% over prior year's budget.
South Carolina	Legislative	Revision	C	Passed legislature; will be on November ballot	Would submit a constitutional amendment to the voters that would: (1) establish an expenditure limit not exceeding the growth in personal income over 3 previous years or 9.5% of personal income, whichever is greater; (2) limit the growth of state employment to growth in state population; (3) limit debt service on general obligation bonds to 5% of general revenue; and (4) reduce the reserve fund from 5% to 4% of the previous year's revenues.
Virginia	Legislative	New	C	Bill died in 1984 session	General Assembly passed amendment in 1983 that tied growth in state expenditures to growth in the state economy. Before it is sent to the voters, the General Assembly must vote on the measure in two sessions. It did not pass this year.
Washington	Citizen—Initiative 465	New	S	Failed; insufficient signatures	Would have (1) phased down sales tax from 6.5% to 5.5%; (2) reduced the tax rate on the business and occupation tax, state property tax, and excise taxes; (3) prohibited increasing these taxes within 2 years of passage unless overridden by $\frac{2}{3}$ s legislative vote; and (4) replaced revenue limit with an expenditure limit based on inflation and population changes.

SOURCE: ACIR 1984 fiscal survey of legislative and executive budget officials. Information as of August 1984.

- Nevada's property tax limitation would cap annual revenue increases at 5%. Passage of new state and local tax increases would also be restricted. The initiative has been certified for the November ballot.
- Oregon's property tax limitation would reduce taxes to 1.5% of 1981 assessed value and restrict adoption of new state and local tax and fee increases. The authors of this initiative succeeded in collecting 48% more than the signatures necessary to qualify for the ballot.

Three other TEL measures in Nebraska, Oklahoma, and Washington were contenders for the November ballot, but insufficient signatures were collected to qualify, despite, in the case of Washington, the Governor's endorsement of the proposal.

The pending initiatives bear watching. Discussions with state officials indicate that they are serious proposals and are receiving a substantial amount of public visibility and media attention. If any of these four measures are approved in November, the effects will be immediate and significant for the involved state and local governments. These proposed TELs are generally more stringent than limits enacted previously and are directed toward closing loopholes found in earlier initiatives.

One other initiative merits mention. A Florida measure received the voter signatures necessary to qualify but was denied ballot status by the courts. This proposal would have adopted a state and local TEL using FY 1981 as a base year and capping annual increases in revenue at two-thirds of the change in the Consumer Price Index, not to exceed 5%. The immediate effect would have been to cut \$2.4 billion—or nearly one-quarter of the total—from Florida's current state budget. TEL proponents apparently ignored the effects of Florida's being one of the fastest growing states in the country. Initiative authors recognized that the limit would be exceedingly restrictive, but purposely chose this route to regularly force a vote on government budget priorities by using the escape clause that allows the limit to be overridden by popular vote. Therefore, rather than calling for a popular vote on tax increases, this measure would have called for a vote on expenditure increases. In March, the State Supreme Court struck down the initiative because it violated Florida's constitutional "single-subject" requirement. There are now efforts to place a limitation on the 1986 ballot.

Reasons for New TEL Activity

It is difficult to generalize why these particular initiative drives have taken root in these states, but several factors seem to be contributing.⁵

First, 1983 was a landmark year for state tax increases. Over \$7 billion in additional tax revenue was raised—the largest increase (in constant dollars) since

the 1971 legislative sessions. Despite the profusion of tax hikes in 1983, FY 1984 state spending was kept in check. The recession caused large revenue shortfalls so new revenues were needed just to maintain current service levels; generally they were not used to expand programs. Most of the states with major initiatives now pending raised taxes significantly during the recession, but the FY 1984 spending levels in these states increased marginally—rising only to offset inflationary effects. (In Nevada and Oregon nominal FY 1984 general fund spending actually decreased from the prior year.) Consequently, new limitations may be gaining popular support because the recession increased tax burdens on citizens who were employed and paying taxes. These same taxpayers received no additional government services; their extra tax dollars simply replaced revenue lost due to the economic slowdown.

Second, the cry of "Tax Revolt" continues to have allure and the populist tax groups that created the Prop 13 movement are still alive, well-organized, and well-funded. These tax groups have appointed themselves public watchdogs to prevent a strong economic recovery from interacting with 1983's tax increases to generate a state spending spree.

Third, whether these initiatives pass or fail may prove somewhat irrelevant. Just by being serious contenders for adoption they send a clear message to state lawmakers. Initiative petition circulators have learned that even if their drives for government spending restrictions fail at the ballot box, the "go-slow" on government spending message nonetheless reaches state legislators. Lawmakers often take action in hopes of diffusing future citizen-initiated, government-binding limitations. These citizen tax and spending protestors have little to lose and much to gain by starting a TEL campaign.

Fourth, taxpayers may simply be venting their general frustration with government at the nearest target. Historically high federal deficits are receiving daily media coverage and are considered a culprit behind high interest rates. Taxpayers may be taking out their frustrations with Congress on the more easily accessible state and local level.

Differences Between the New Proposals and Existing TELs

The most striking change between the TELs approved in the late 1970s and those now pending is the move toward requiring tax or fee increases or both to be approved by popular vote or legislative super-majorities. Adopting these requirements will make passing a tax or fee increase much more difficult. The pending proposals and the new voting requirements would be:

California: State fee increases would require two-thirds legislative vote and local fee increases would need two-thirds of the popular vote. (Note: Prop 13 already imposed these voting requirements for nonproperty-tax increases.)

⁵It is important to note that only 26 states allow citizens to initiate a legislative or constitutional ballot-issue. Most of these are western or mid-western states.

Table 2

State Tax and Expenditure Limits

Year of Adoption	State	Initiated by Voters (V) Legislature (L) or Constitutional Convention (CC)	Approved by Voters (V) or Legislature (L)	Constitutional (C) or Statutory (S) Limit	Limit on Expenditure (E) or Revenue (R)	Growth of Expenditure or Revenue Cannot Exceed**
1976	New Jersey*	L	L	S	E	growth of state per capita personal income
1977	Colorado	L	L	S	E	7%
	Rhode Island*	L	L	S	E	6%
1978	Arizona	L	V	C	E	growth of state personal income
	Hawaii	CC	V	C	E	growth of state personal income
	Michigan	V	V	C	R	growth of state personal income
	Tennessee	CC	V	C	E	growth of state personal income
	Texas	L	V	C	E	growth of state personal income
1979	California	V	V	C	E	growth of inflation & population
	Louisiana	L	L	S	R	growth of state personal income
	Nevada*	L	L	S	E	growth of inflation & population
	Utah*	L	L	S	E	85% of growth in state personal income
	Washington	V	V	S	R	growth of state personal income
1980	Idaho	L	L	S	E	growth of state personal income
	Missouri	V	V	C	R	growth of state personal income
	Oregon	L	L	S	E	growth of state personal income
	South Carolina	L	L	S	E	growth of state personal income
1981	Montana	L	L	S	E	growth of state personal income
1982	Alaska	L	V	C	E	growth of inflation & population

*Rhode Island's initial limit was 8%, which was changed to 5.5% in 1983 and then 6% in 1984. Nevada and Rhode Island have nonbinding limits; Utah's limit was never implemented and New Jersey's expired in 1983.

**The summary of each state's growth limit is approximate. For example, Arizona's limit restricts appropriations of state tax revenues to 7% of state personal income. If in one year appropriations are less than 7% of personal income, growth in appropriations for the next fiscal year may exceed growth of state personal income.

Source: ACIR staff compilation.

Michigan: State or local tax increases would require a popular vote to pass and state or local *fee* increases would require a popular vote or four-fifths majority legislative vote.

Nevada: State and local tax or fee increases would require a two-thirds governing body vote *and* a popular vote.

Oregon: All state and local tax or fee increases would require approval by popular vote.

The Oklahoma and Washington initiatives which failed to qualify for the ballot also contained these unusual voting requirements to raise taxes or fees.

Currently, there are five states—California, Delaware, Louisiana, Mississippi, and South Dakota—which mandate a super-majority legislative vote (usually two-thirds) for all state tax increases, including rate or base changes. In addition, all of these states except South Dakota must meet the same requirement to adopt new taxes.

Louisiana and Mississippi have relied on this fiscal management tool for many years; California and South Dakota adopted it in 1978. Delaware joined the group in 1980, applying the voting requirement to all tax and license fee increases, and in 1981 extending it to include new taxes or license fees. Each of the three states adopting this change most recently used a constitutional amendment process.

Requiring a super-majority vote in the legislature to pass tax increases usually enhances the minority party's bargaining power with the majority party because passage will need votes from both sides of the aisle. But gaining this kind of coalition support to pass a tax increase usually requires extensive political "horse-trading" or compromise.

Requiring a super-majority vote of a governing body may be workable, but requiring a popular vote on all tax or fee increases or both curbs the powers of elected representatives and presents other problems. Governments must pay for special elections and must encourage media coverage to educate the voters on a particular issue. These are time-consuming and expensive processes. Requiring a popular vote precludes quick remedial revenue action on the part of the legislating bodies if unexpected revenue shortfalls occur. Taxpayers are capable of judging the merits of major changes in the sales or personal income taxes, but some analysts question whether they have the expertise and patience to decide on the merits of increases in less-important taxes and fees such as insurance taxes, death and gift taxes, or hunting and fishing licenses. Some experience with this requirement exists among local governments in California and Missouri which have lived with such standards since enacting their TELs in 1978 and 1980.

Another important distinction between the newly proposed TELs and former measures is the limitations placed on fees, licenses, and permits. The initiatives in

California, Michigan, Nevada, and Oregon all have specific provisions concerning fee increases; each seek to limit fees to the actual costs of providing the associated services. Requiring super-majority votes to increase fees is also a common theme among the new generation of limitations. These provisions prevent governing bodies from substituting user-charge revenues for taxes, an approach commonly used in California to escape the tax restrictions.

These new fee restrictions can have significant repercussions. Recently a number of California state and local agencies that have authority to issue municipal revenue bonds have been placed on a "credit watch" by Standard and Poor's because of the pending "Save Prop 13" proposal. This credit watch arose because many bonded public works are guaranteed with specific user fees whose increases could be curtailed by the measure. Furthermore, the "Save Prop 13" proposal has depressed the price of California municipal bonds and may cause some new issues to be suspended because bond buyers fear the added risk this initiative poses.

Modifications of Existing TELs

Significant activities surrounding tax and expenditure limitations this year are legislative efforts to adjust and refine existing TELs to better pattern them to individual state conditions. Existing TELs are now entering the second phase of their development as lawmakers evaluate and decide their practical usefulness. No longer are TELs considered a novelty used to placate irate taxpayers; they are now viewed as an important element in government finance.

There are four reasons why states with TELs are interested in modifying them. First, and most obviously, some state limitations or portions of them are due to expire. For example, the New Jersey lid expired in 1983. The legislature promptly passed three separate bills similar to the original version, but Governor Kean vetoed each, insisting on changes that would provide more maneuvering room within the limit. The Governor's changes are especially important since the FY 1985 budget would have exceeded the limit as initially designed. In Alaska and Hawaii, the expenditure limitation is constitutional, but the limitations' indices which determine the annual adjustment are set legislatively and need to be reauthorized periodically.

Two other reasons why operating TELs are receiving renewed attention have opposite rationales: to loosen or to tighten the restrictions.

Only two states this year have taken steps to loosen their existing limits. Hawaii has proposed changes in its constitutional amendment that automatically rebates taxes if the ending balance in two previous years exceeds 5% of general fund revenues. State officials discovered that flush budget conditions in prior years dictated tax rebates during current fiscally-lean years. In Rhode Island, the expenditure limit which applies only to the Governor's recommended budget was adjusted upward, allowing for annual increases of 6% rather than 5.5%.

A number of states are attempting to fine-tune their TELs to increase their effectiveness or to correct misinterpretations. In Arizona, for example, legislators want to restrict state spending constitutionally to 6.5% of total state personal income rather than the current 7%. During the first several years after the expenditure limit's adoption, spending approximated 6.9% of state personal income. During the recession, spending decreased to 6.3% of state personal income. If this measure passes, the TEL will probably slow state spending in coming years because the lower spending figure includes state-imposed cutbacks forced by the recent recession.

Also, state lawmakers can use tightening up TEL re-

quirements as a tradeoff for higher taxes. Louisiana provides an example. Budget problems have plagued that state since a weak oil market depressed severance tax collections. Governor Edwards proposed a \$700 million tax package and coupled it with major revisions in the state's TEL, the current TEL having proved ineffective. The tax package passed in April; the TEL proposal is pending voter approval in November. The stricter TEL measure would switch the current statutory revenue limit to a constitutional expenditure, one based on 85% of the growth in personal income. By coupling the TEL with tax increases, the package was made more politically palatable.

To further sweeten the proposal, the legislature de-

Existing State-Level Tax and Expenditure Limits

Seventeen states have limitations on state-level taxing or spending. Most of the state TELs were passed at the peak of the 1978-1980 "Tax Revolt," during which period four or five state TELs were passed each year. Since 1980, such action has died down considerably. One state TEL was adopted in 1981, one in 1982, and none since that time. (See Table 2 for a brief description of all state TELs.)

Limits are most often placed on state expenditures (13 of the existing TELs), but can also be placed on state revenues (four of the existing TELs.) The most common type of state TEL effectively limits state expenditure or revenue growth to the rate of growth in state personal income. A second type of TEL, adopted in California, Nevada, and Alaska, restricts the rate of growth in spending to the rate of growth in inflation and population. The final type of TEL restricts the annual growth in spending to a set percentage. Both Colorado and Rhode Island, which adopted TELs early in the tax limitation movement, have limits of this type.

Ranking Restrictiveness of TELs

The degree of a TEL's stringency cannot be measured along a single dimension. For example, a TEL may be quite restrictive in its allowable growth rate, but lenient in terms of the percentage of total expenditures subject to the limit. One important question regarding restrictiveness is: Does the limit require tax rates to be rolled back? Proposition 13 did cut local tax rates by rolling back property tax rates, but no adopted state-level TEL has cut current tax levels. Instead, existing state TELs attempt to restrict *future* growth in taxes or expenditures. Their relative restrictiveness can be evaluated on the basis of the growth rates allowed. The least restrictive ones limit growth in revenues or expenditures to the rate of growth in personal income. TELs based on the rate of growth in inflation and population are the next most restrictive, followed by those limiting growth to an annual increase of 6% or 7%.

Another characteristic affecting the level of stringency is the breadth of spending or revenues covered. In no case do TELs cover all state expenditures or revenues. Generally, TELs do not limit spending outside the general fund and in some cases even some general-fund spending is ignored. On average 40% of state spending or revenue is exempt from state TELs. The state with the highest proportion of its budget reported to be exempt was Oregon with 75%, compared to 30% in Nevada.¹

The difficulty encountered in changing or waiving a TEL is another important consideration in evaluating its relative stringency. Statutory TELs are easier to modify than constitutional ones. Those requiring only simple majorities to approve expenditures above the limit have the most lenient waiver provisions.

Evidence Regarding Effectiveness of State TELs

Recent ACIR research examined the effectiveness of state tax and expenditure limitations using two data sources: the results of a 1984 ACIR survey of state legislative and executive budget officers and some citizen tax groups, and data on growth in the states' total and general fund expenditures from 1977 to 1983. That study concluded that for most states, tax or expenditure limits have not constrained growth in taxing or spending. However, all states, even those without TELs, moderated their spending growth in the 1970s reflecting mounting public pressure to curb government spending. However, the study did not conclude that state TELs are inherently ineffective. Survey data on projected taxing and spending for the 1985 fiscal year show that the caps imposed by the TELs are yielding less "headroom" compared to the previous year. State tax and expenditure limits may effectively limit state spending and taxing in 1985 and future years.

States Take Fiscal Discipline to the National Level

A citizen initiative that has qualified for the November ballot in Montana by a wide margin—collecting 169% of the necessary signatures—may provide the final push for constitutionally requiring a balanced federal budget. It would require the state legislature to pass a resolution within 90 days calling for a balanced budget amendment, or after that time remain in session without pay until the resolution is passed. This pending initiative takes on special importance given that only two more states are needed to reach the 34 required to set in motion the call for a Constitutional Convention.

As of August, a similar initiative in California was removed from the November ballot by the State Supreme Court after having gathered 154% of the necessary signatures. The court ruled that only the state legislature, and not the voters, could direct Congress to call a Constitutional Convention on the balanced budget Constitutional Convention. The same resolution, awaiting action in the House, may receive more favorable attention when the House reconvenes given the strong anti-tax mood in the state.

At the same time, Congress is considering a combined balanced budget-tax limitation amendment. This amendment (S.J. Res. 5) is near the top of the agenda of the U.S. Senate Judiciary Committee and may be reported out for full Senate consideration shortly. In order for the constitutional amendment to be proposed through this avenue, a two-thirds vote in both the House and the Senate is required before it can be submitted to the states for ratification. Legislatures or conventions in three-fourths of the states must adopt the measure before the Constitution is amended.

The U.S. Constitution has never been amended by Constitutional Convention. In 1912, 31 of the then-required 32 states called for a Convention on directly electing U.S. Senators, rather than having them appointed by state legislatures. However, before the final state could act, Congress passed the proposed 17th Amendment. If history is our guide, and if either Michigan's or Montana's drive provides the 33rd state calling for a Constitutional Convention, Congress is likely to pass a balanced budget amendment to prevent a possible "run-away" Constitutional Convention.

signed the package to establish a "rainy day" fund as a hedge against unforeseen revenue changes, and an economic development Permanent Fund that will finance research in science, technology, and renewable resource projects. The Permanent Fund is an unconventional, long-term approach to solve the problem of the state's dependency on revenues derived from non-renewable oil and gas resources. It is meant to spur development to replace a vanishing economic base.

OUTLOOK FOR PASSAGE

Information collected thus far indicates that the public is still receptive to government spending restrictions, but of course the voters will have until November to decide. However, many factors can influence the outcome, some of which are discussed below.

Reasons Why Initiatives May Not Pass. Before November it is very likely that opposition to the initiatives will crystallize and campaigns will be organized to defeat these measures. In Ohio last year for example, after the legislature permanently raised the personal income tax by 90%, the resulting backlash produced a citizen initiative to repeal the increase. The Governor and the legislature mobilized a strong grassroots campaign to defeat the initiative and won—despite the prediction of many observers that approval was inevitable.

Furthermore, similar tax reduction measures in the recent past have been spurned by voters in many of the

same states where initiatives are now pending. For example, anti-tax measures were defeated in:

California: In 1980, Howard Jarvis spearheaded an effort to cut the income tax in half.

Michigan: A measure was defeated in 1978 and 1980 to reduce property taxes to 25% of assessed value which would have cut property tax collections almost in half.

Oregon: A property tax reduction initiative similar to the one now pending has been defeated four previous times. Several times passage came very close but the legislature attempted to diffuse it by offering property tax relief.

These examples show that citizen campaigns to limit government taxing and spending powers tend to be defeated at the polls if voters perceive the proposals as too "radical." "Radical" measures appear to be ones that effect immediate changes in the status quo (e.g., make significant cuts in tax burdens) rather than limits that aim to moderate future government growth. In addition, these examples show that tax-cutting measures can enjoy initial popular support but that support can wane by election time.

Finally, the economic recovery is still underway and it appears that high inflation rates will not be immedi-

The Michigan Tax Story

Unrelentingly since 1980, Michigan has had double-digit unemployment rates, peaking at over 16% during the high point of the last recession. The state budget was decimated, forcing four executive-order budget cuts totalling \$778 million in FY 1982—constituting 15% of total general fund spending—and a temporary increase in the income tax. Despite these efforts, the general fund for FY 1983 had a \$900 million deficit. In April 1983, the Governor and the legislature sought to salvage state solvency by cutting \$225 million from the budget and by temporarily raising the state flat-rate personal income tax from 4.6% to 6.35%—a 38% increase. Because the fiscal year was already half completed and the revenue shortfall had to be erased by October, the withholding rate for the last six months jumped to 6.92%. (The rate automatically dropped to 6.1% in January of this year.)

Shortly thereafter a citizen's tax rebellion started brewing, including an initiative to roll back this tax increase and a drive to recall the Governor and Democratic legislators who voted for it. (The tax measure had passed the State Senate on an almost strictly partisan vote with only one Republican opting for the increase.) Even before the new tax increases Michigan had ranked as a high-tax state.

Several hundred thousand signatures were collected to recall the Governor, but they fell short of the number necessary to begin the proceedings. Nevertheless, angry taxpayers did recall two state

senators in November 1983—the first recall in the state's history. This action dramatically changed the political complexion of the Senate, switching a 20-18 Democratic majority to a 20-18 Republican one.

Fueled by this success, the initiative petition to rollback tax rates gathered momentum and more signatures. To insure that any future tax increase would be publicly supported, initiative authors included a section requiring voter approval of all tax increases. By July, more than 300,000 signatures were collected, enough to place the issue on the November ballot as a constitutional amendment if the Secretary of State's office certifies these signatures as valid.

In addition to voiding all state and local tax and fee increases enacted since December 31, 1981, the initiative would:

- Require a popular vote to increase any state or local tax;
- Require a popular vote or four-fifths concurrence of a governing body to increase any state or local fee; and,
- Cap local income tax rates at 0.5%.

In the meantime, the legislature recently passed a tax bill that will eliminate the temporary income tax increase sooner than now scheduled, dropping the rate to 5.35% in September. Perhaps this action may diffuse the appeal of this proposed constitutional amendment.

ately rekindled. As a result, personal incomes are growing in real terms, automatically making more dollars available for public spending. During good economic times, taxpayers generally do not object to funding more government programs. For example, taxpayers in Tennessee, Arkansas, Texas, Mississippi, and South Carolina appear willing to pay for elementary and secondary educational improvements that require higher taxes. Furthermore, in West Virginia the November ballot will include a proposal to raise the sales tax 1% with revenues earmarked for education.

Reasons Why Initiatives May Pass. In June, California voters passed an initiative that cut the state legislature's budget by 30% and reduced the power of the Assembly Speaker. This issue was immediately subjected to judicial challenge, but it could be a barometer of current California public sentiment toward government. Further omens include the ease with which ballot certification for Jarvis' "Save Prop 13" and the initiatives urging a federal balanced budget amendment were obtained. (See box on page 00.)

An indication of voter mood can also be gleaned from

the June Rhode Island vote on the Greenhouse Compact, an ambitious government-sponsored economic development program. The Compact would have amassed \$250 million in grants and loans to help create 60,000 new jobs in the state. It was promoted by Governor Garrahy, legislative leaders, unions, and the Chamber of Commerce. Eighty percent of those voting decided against the measure. The result suggests that voters perceived the higher taxes as sustaining only an "abstract and tenuous" economic development program that would primarily benefit established persons and institutions, including government.⁶

In the past, voters have tended to view favorably tax and expenditure limitations that linked allowable government growth to private-sector growth. Taxpayers generally enjoy the current level of government services but do not want government programs to expand if it means reducing their disposable income. This line of reasoning suggests that moderate TEL proposals may have a good chance of passing.

⁶The Washington Post, "A New Idea Fizzles on Launch," July 15, 1984, p. B-5.

Balanced Budget Drive Set Back

As this issue of *Perspective* went to press, the drive to amend the U.S. Constitution suffered two setbacks. These occurred on September 13 when the Michigan House and the U.S. House of Representatives defeated or delayed action. In Michigan, a House committee defeated by a 5 to 4 vote a resolution that would have added Michigan to the ranks of states demanding a constitutional convention if Congressional action is not forthcoming. If the measure had passed in Michigan, only one more state would have been needed to set the state-initiated process for a constitutional convention in motion.

Congressional action also looked less likely as this issue went to press. On September 13, House supporters of the balanced budget amendment failed to garner the 218 member signatures needed to force the measure out of the House Judiciary Committee. Also on September 13, however, the Senate Judiciary Committee approved a balanced budget amendment to the U.S. Constitution and sent it to the Senate floor for a vote.

fiscal discipline, the impetus is coming from the legislative institution and not from outside special interest groups.*

⁷ACIR, 1984 *Changing Public Attitudes on Governments and Taxes*, S-13, forthcoming. See **A Fiscal Note** in this issue.

*This article is largely based on two other papers by the authors. These are Karen M. Benker and Daphne A. Kenyon, "Fiscal Discipline: Lessons From the State Experience," *National Tax Journal*, September 1984 and a 1984 ACIR Working Paper on the same topic.

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A final factor is the current \$200 billion federal deficit—a deficit that is larger than the tax collections of all 50 states. Most taxpayers are aware of the severity of the federal problem, but there is little that they can do to apply fiscal discipline to the national government. Nevertheless, they can alter the shape of state finances and many choose to do so in November. Finally, for the first time in 13 years, the national government suddenly dropped to last position behind state and local ones when taxpayers were asked in ACIR's annual public opinion poll to indicate from which level they get the most for their money.⁷ Highly visible federal deficits probably contributed substantially to this dissatisfaction.

CONCLUSION

In November 1978, shortly after the passage of California's Proposition 13, there were new tax or spending limitation measures on the ballot in 13 states. Ten of those limitations were adopted. New tax and spending limits nearly ceased being adopted during the two recent back-to-back recessions, but 1984 may be the year the "Tax Revolt" stages a comeback.

New tax and spending limits are on the ballot in four states. These proposed limitations are more stringent than existing ones. They generally require supermajority legislative votes sometimes in addition to mandating popular votes for tax increases. In many cases, they extend limitations to fee increases.

Modifications of existing TELs will be on the ballot in another four states. In the case of Arizona, Louisiana and South Carolina these measures are designed to put "teeth" in the existing limit in an effort to increase government fiscal discipline. But in this new drive for

ACIR Holds Hearings on Transit, Political Party Issues

On June 6, the day before its regular meeting, the Commission held public hearings on metropolitan transit in the 1980s and on political parties. Urban transportation is a key intergovernmental issue and the subject of ongoing Commission research. At the ACIR hearing, Ralph Stanley, the Administrator of the Urban Mass Transportation Administration, spoke of his agency's commitment to "promoting increased private sector involvement in transit, increased competition among potential providers of transit services, and increased state and local financial commitment to transit." The seven witnesses brought widely differing reactions to ACIR's transit study and to transit issues in general. All testified that mass transit in the 1980s is in a state of flux as it moves from a predominantly private industry to a mostly publically-funded and administered function. But the pendulum may swing back somewhat toward private suppliers, a trend that could require adjustments by major actors in transit. ACIR's research considers these broad trends. Following the hearing, at which several witnesses requested more time to review ACIR's proposed recommendations, the Commission postponed further consideration of the study until its next business meeting in December 1984.

Commission members also heard from a panel of expert witnesses on "Transformations in American Politics and Their Implications for Federalism." In the words of Professor John F. Bibby "[t]he role of parties in maintaining balance among national, state and local authorities has been too frequently ignored."

Those testifying at the ACIR hearing agreed that the role of political parties has diminished in recent years. Eugene Eidenberg, former Executive Director of the Democratic National Committee, attributed the weakening of his Party to "the steady growth of federal spending (which) led to the organizing of many single issue groups Over time, the centrifugal force of these many groups

competing for primacy within the party structure became more powerful than the force which held them in allegiance."

Howard Callaway, Chairman of the Colorado Republican Party, agreed that special interest groups are strong and getting stronger but that political parties, "precisely because they are broadly based, can act to counter the innate selfishness of special interest groups." The most important change to help parties would be, in Mr. Callaway's view, to simplify federal election laws. State and local parties are "confused and harassed by unreasonable, illogical, confusing and petty regulations and restrictions."

ACIR will continue to examine the institutional, judicial and social trends that are affecting parties and, hence, federalism. At its next business meeting, ACIR may consider recommendations for revitalizing parties as counter-balancing forces to more centralized government.

Commission Continues Policy Review at June Meeting

For the past several meetings, the Commission has been reviewing a large block of existing policy recommendations. These recommendations were selected from the more than 200 positions the ACIR has adopted on state institutional and procedural topics and on state-local relations. Of these 200, the Commission chose to take a closer look at some 34 recommendations that appeared to still be particularly relevant. At the June meeting the Commission neared completion of this review effort and reaffirmed support for—

- state general revenue sharing programs;
- state review of categorical grants;
- reviewing of grant-attached conditions imposed by the states;
- grant coordination as part of state planning and budgeting processes; and
- state intergovernmental advisory bodies.

Also, the Commission again stated its

support for assigning functions among state, local and areawide units of government. Further, although many states have moved to loosen the grip of Dillion's Rule, many have not. Local governments should, in the Commission's view, be granted increased discretionary authority to carry out their functions as efficiently and effectively as possible. During this time of fiscal austerity, it has become especially difficult for localities to pay for carrying out state-mandated functions. Therefore, the ACIR reaffirmed that these mandates should be catalogued, reviewed in a systematic way, and the costs of implementation paid by the states in such highly intergovernmental functions as education, health, highways and welfare. The Commission reiterated support for state fiscal note procedures and for minimizing state personnel mandates. Local governments generally need both relief from mandated costs and access to nonproperty tax revenues, especially when property tax limitations apply. However, the Commission recommended strict state regulation of local retirement programs and using statewide systems when appropriate.

ACIR's Municipal Antitrust Policy Transmitted to Congress

Based on policy adopted by the Commission last spring, ACIR Executive Director S. Kenneth Howard submitted written testimony on the municipal antitrust issue to both Senate and House committees. Hearings were held in both houses of Congress on bills addressing problems inherent in municipal antitrust liability. Howard's statement included ACIR's policy recommendations which consist of two parts. The first part recognizes the states' pivotal role in providing immunity from federal antitrust statutes. The second contains eight policy statements that the Commission believes should be embodied in any legislative solution.

The hearing before the House Judiciary Committee's Subcommittee on Monopolies and Commercial Law (March 29, 1984) elicited expert testimony on separate bills submitted

by three Subcommittee members, Representatives Edwards, Fish, and Hyde, respectively. The Senate hearings, conducted on April 24, 1984, before that body's full Committee on the Judiciary, considered only the bill authored by its chairman, Senator Strom Thurmond. (See "Intergovernmental Focus" in this issue for a legislative update.)

Silver Anniversary Oversight Hearings Conducted on ACIR

On July 25, 1984, Senator Dave Durenberger and Representative Ted Weiss, respective Chairmen of the Senate and House Intergovernmental Relations Subcommittees, held joint oversight hearings on the past accomplishments and future tasks of the Advisory Commission on Intergovernmental Relation. The hearings coincided with the Commission's 25th Anniversary year and included testimony from a range of witnesses:

Robert E. Merriam
former Chairman

William G. Colman
former Executive Director

Wayne F. Anderson
former Executive Director

Del Goldberg
Retired Staff Member of the House Intergovernmental Relations Subcommittee

Professor Elinor Ostrom
Indiana University

Professor Thomas Anton
Brown University

Robert B. Hawkins, Jr.
Chairman

S. Kenneth Howard
Executive Director

John Shannon
Assistant Director

David B. Walker
Assistant Director

As indicated by Representative Weiss in his introductory remarks, the hearings were called to seek an-

swers to a number of questions:

- Has the Commission been able to maintain the quality and quantity of its work during a period of intergovernmental turmoil?
- Has the Commission's independent nature and bipartisan balance, politically and ideologically, been maintained, and how can this be fostered?
- What criteria have been used to evaluate new research projects, and to what extent have these criteria changed the focus of ACIR's work in recent years?
- Should the number of members on the Commission be expanded to accommodate changing intergovernmental relationships?

Senator Durenberger concurred that the purpose of the hearings was to review ACIR's past contributions and to look ahead to the Commission's future. He called upon witnesses to address their comments specifically to how ACIR can best structure itself to meet the challenges that are likely to arise shortly. Specifically, Senator Durenberger noted that Congress will probably look at the tax code and entitlement programs next year, two areas where the Commission could provide a unique intergovernmental point of view.

For the hearing record, the Commission submitted detailed written responses to committees' questions concerning the structure, processes and activities of the ACIR. In oral testimony, Chairman Robert Hawkins addressed the broader question of ACIR's future role in studying a federal system that is vastly different than it was a quarter of a century ago. In recent years, and especially since 1978, fiscal changes have swept across our intergovernmental system, and a kind of "de facto new federalism" has occurred. To meet future challenges, Chairman Hawkins stated, "we must re-examine the fundamental theory and practice of American federalism. We will always have a strong and active national government. The question is whether we will have strong and independent state and local governments."

ACIR's 25th Anniversary To Include September Retreat

A special retreat to consider the future of federalism will take place on September 23 and 24 in Annapolis, MD. As part of ACIR's 25th Anniversary observance, past and current Commission members will meet in the State Capitol to discuss emerging trends in intergovernmental relations. Four distinguished scholars will present papers prepared for the occasion. They will include:

Daniel J. Elazar
Director of the Center for the Study of Federalism
Temple University

A.E. Dick Howard, White Burkett Miller Professor of Law and Public Affairs
University of Virginia

Paul Peterson
The Brookings Institution

Harry N. Scheiber
Professor of Law and History
University of California, Berkeley

Senator Richard Lugar of Indiana and Alive Riclin, Director of the Economic Studies Program at the Brookings Institution, will be featured speakers at the retreat.

The next regular ACIR business meeting has been scheduled for December 6 and 7. It will be held in Washington, D.C.

ACIR Sponsors Hearings on State-Local Relations

In July, the ACIR sponsored two hearings on the state-local partnership. The hearings are part of the Commission's year-long effort to assess its own 25-year history and impact, examine and uncover current federalism issues, and formulate an agenda for the near future. ACIR held these hearings in conjunction with the annual meetings of two major public interest groups—the first, on July 8, was in Seattle (WA) with the National Association of Counties (NACo) meetings and the second hearing was on July 23 in Boston (MA) with the meeting of the

National Conference of State Legislatures.

Although the state and local officials testifying at the hearings spoke to a wide variety of issues, a number of themes recurred throughout the hearings.

- A new federalism involving more decentralized government will be successful if and where a good state-local partnership prevails.
- A good partnership depends upon good communications—in turn, good communications depend upon both institutional and informal arrangements but the institutional lines of communications are essential.
- The era of “doing more with less” in government that was foreshadowed in the late 1970s took root in the 1980s. Declining federal aid has prompted a number of shifts.

President Names New Executive Branch Members

In June, President Reagan announced the appointment of two new Executive Branch members to the Advisory Commission on Intergovernmental Relations. They are Secretary of Labor Raymond J. Donovan and Secretary of the Interior William P. Clark. Secretary Donovan joined the President's Cabinet in 1981. Before becoming Secretary of Labor, he was executive vice president of Schiavone Construction Co. in New Jersey where he had primary responsibility for labor relations. Secretary Clark has served in his present capacity since November of 1983.

Secretary Clark, prior to his confirmation as Interior Secretary, was Assistant to the President for National Security Affairs and Deputy Secretary of State. He served under then-Governor Reagan in California until he was appointed Judge of the Superior Court in San Luis Obispo County in 1969. He was subsequently appointed an Associate Justice of the California Court of Appeals and an Associate Justice of the California Supreme Court before coming to Washington.

The two Cabinet members join Lee Verstandig, the White House As-

sistant for Intergovernmental Affairs, as the three Executive Branch representatives currently serving on ACIR.

Hearings Held on New ACIR Members

The question of whether the ACIR should be expanded beyond its present 26-members was the subject of July 27 hearings before the House Subcommittee on Intergovernmental Relations and Human Resources. Two pending House bills would add members. H.R. 1617, sponsored by Representative McGrath, would add four new members including an elected school board member, an elected town or township official, a federal judge, and a state chief justice. The second measure, H.R. 2536, sponsored by Representative McCain, would add a representative for the Indian tribal nations.

ACIR Host to German Delegation

In July, the Commission hosted a delegation from West Germany that was made up of members of the Bundesrat's Permanent Advisory Council. The Bundesrat is the second house in the country's bicameral legislature. Bundesrat members are appointed by the German equivalent of our state governors and that chamber reviews all national legislation affecting state interests. The members who head each state delegation make up the permanent advisory council.

Two Commission members, James Dwight and County Executive William Murphy, along with senior staff members, exchanged views with the German officials on trends in federalism, both here and in Germany.

State ACIR Ranks Continue To Grow

Interest in state-level intergovernmental advisory groups continues to grow, as three more states have acted to create or rejuvenate their own state ACIRs in recent weeks. Legislation was adopted in South Carolina to reestablish that State's ACIR and in Connecticut to create a new commission. In Ohio, Governor Richard Celeste reactivated



that State's intergovernmental panel—the State and Local Government Commission.

Dr. David B. Walker Accepts Academic Post

ACIR's Assistant Director for Government Structure and Functions, Dr. David B. Walker, is leaving ACIR to accept a full professorship at the University of Connecticut. Dr. Walker joined the Commission in 1966. Since that time, 44 policy reports, 35 information reports and numerous suggested state bills were prepared under his direction. In addition, he has worked closely with lawmakers over the years to develop at least five separate pieces of federal intergovernmental legislation including the *Intergovernmental Cooperation Act*, the *Intergovernmental Personnel Act*, and Part A of Title VII of the *Housing and Urban Development Act*. His section's most recent work on regulatory federalism provided the philosophic and factual underpinning for pending Senate legislation to reduce and reform federal regulatory presence in state and local governmental affairs.

Dr. Walker is the author of the widely-used text, **Toward a Functioning Federalism**. He has published numerous articles on intergovernmental relations, federalism and political science. He was responsible for guiding perhaps the two most ambitious studies in ACIR's history, **The Intergovernmental Grant System** and **the Federal Role in the Federal System**.

Dr. Walker will be teaching both political science and public administration at the University of Connecticut Master of Public Affairs Program.

Do's And Don'ts For Deficit Cutters: Lessons From A Public Opinion Survey

by John Shannon

Before charting a budget deficit reduction plan, federal policymakers must answer several hard questions—should the deficit reduction strategy rely mostly on expenditure cuts, mostly on tax hikes, or should it be evenly balanced between program cuts and tax increases? (Alternatively, to what extent can future economic growth be relied upon to increase collections?) If expenditure cuts are to be made, in which of the broad program areas should the ax fall the hardest—defense, social security and Medicare, or in the “all other” category? If taxes must be raised, how should it be done—higher income tax rates, a broader income tax base (cutting back on deductions and tax shelters), or some new levy such as a national sales tax?

Positive Lessons

To find out public opinions on such tough issues, these questions were asked in May of this year by the Gallup Organization as part of the ACIR's 13th annual survey of public attitudes on government and taxes. Three major findings emerged:

- As a group, the respondents clearly favored an overall deficit reduction strategy that placed more emphasis on expenditure cuts than on tax hikes. While it is true that 33% of the respondents favored a deficit reduction policy equally balanced by cuts in spending and by tax increases, 51% of the respondents opted for mostly cuts in spending as compared to only 7% who favored a plan characterized mostly by increases in taxes. It is interesting to note that only 9% of the respondents fell into the “Don't Know/No Answer” category. (Table 1)
- As for expenditure cuts, the big message appeared clear—virtually all federal programs and especially defense could be cut. Only social security and Medicare programs should be considered off limits to the budget cutters. In fact, almost 17 times as many respondents selected defense for cuts as those who called for cutbacks in social security and Medicare. (Table 2)
- As for tax increases, again the overall message came out fairly strong—plug loopholes in the existing income tax base before considering other ways of raising additional revenue. Public support for broadening the income tax base appears to be growing; in the 1984 survey, income tax base broadening enjoyed a 15 percentage point lead over a national sales tax compared to only a 6 percentage point lead in 1972—the only other year ACIR asked this same question. (Table 3)

The public's criticism of the federal individual income tax was also reflected in its response to another question—“Which do you think is the worst tax, that is, the least fair?” For the sixth straight year the federal individual income tax received the most votes. In earlier years, the local property tax usually nosed out the federal income tax for the cellar position in public esteem. (Table 4)

Obviously, the results of public opinion surveys can be only one of many factors that Congress and the White House must weigh in developing a deficit reduction policy. National security considerations, for example, collide head on with popular support for defense cuts. Also, the enthusiasm of many respondents for plugging income tax loopholes collides with another reality—the skill with which Washington lobbyists can throw sand into the gears of the tax reform machinery.

Despite these realities there are at least two policy benefits that flow from these public opinion surveys. First, the broad judgments of the general public serve as a necessary counterbalance to the particular pleadings of interest groups who usually oppose any reduction in their tax breaks or any cut in their favorite federal program.

Negative Lessons

Letting public officials know in no uncertain terms what is clearly unacceptable stands out as the second and perhaps more important value of this type of survey. When asked to make judgments about such distasteful issues as tax increases and expenditure cuts, the respondents in public opinion polls are apt to be more in agreement about the policies they dislike the most than they are about policies they dislike the least.

Using the “least public support” test, this public opinion survey has etched out the three elements that depict the least acceptable approach for federal deficit reduction. These negative lessons can be easily summarized.

- Do not draft a deficit reduction strategy that relies mostly on tax increases.
- Do not cut social security and Medicare benefits.
- Do not raise the rates of the federal individual income tax.

John Shannon is ACIR Assistant Director for Taxation and Finance

Table 1

In the next fiscal year, the federal government is expected to spend about 180 billion dollars more than it takes in. Which one of these basic ways of reducing the deficit would you most prefer?

	Percent
1. Mostly by cuts in spending.	51
2. Mostly by increases in taxes which would be earmarked for reducing the deficit.	7
3. About equally by cuts in spending and by tax increases.	33
4. Don't know/No answer.	9

Table 2

If the federal government decides to reduce spending to keep it more in line with revenues, which one of these would you prefer?

	Percent
1. Cut defense spending.	50
2. Cut social security and Medicare.	3
3. Cut all federal programs <i>other than</i> defense and social security and Medicare. That would include federal programs such as farm supports, veterans benefits, welfare, education, and transportation aid.	31
4. All federal programs.	2 ¹
5. No federal programs.	2 ¹
6. Don't know/No answer.	12

¹Responses were volunteered.

Table 3

Suppose the federal government must raise taxes substantially, which of these do you think would be the best way to do it?

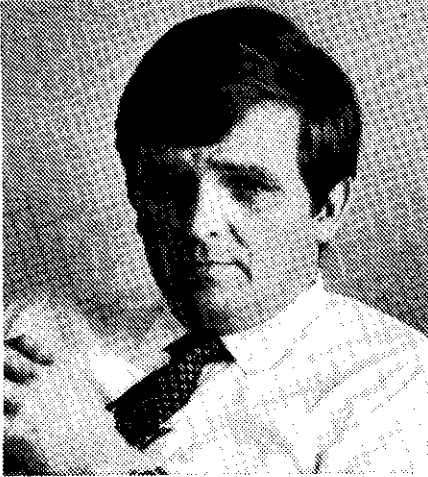
	Percent	
	1984	1972
1. Have a form of national sales tax on things other than food and similar necessities.	32	34
2. Raise individual income tax rates.	7	10
3. Raise money by reducing special tax treatment for capital gains and cutting tax deduction allowances for charitable contributions, state and local taxes, medical expenses, etc.	47	40
4. Don't know/No answer.	14	16

Table 4

Which do you think is the worst tax—that is, the least fair?

	Percent											
	May 1984	May 1983	May 1982	Sept. 1981	May 1980	May 1979	May 1978	May 1977	May 1975	April 1974	May 1973	March 1972
Federal Income Tax	36	35	36	36	36	37	30	28	28	30	30	19
State Income Tax	10	11	11	9	10	8	11	11	11	10	10	13
State Sales Tax	15	13	14	14	19	15	18	17	23	20	20	13
Local Property Tax	29	26	30	33	25	27	32	33	29	28	31	45
Don't Know	10	15	9	9	10	13	10	11	10	14	11	11

The Chairman's View



Dear Reader:

We are now in one of those periods when the actions of public officials and the theories of academics seem to be converging. The daily activities of state and local officials add credence to the growing theoretical argument that these governments can and should foster economic growth. And this new way of looking at economic growth may, in turn, have profound implications for intergovernmental relations in our federal system.

The State of California was one of the first to recognize the increasing importance of trans-Pacific trade by establishing an office in Tokyo.

Elected officials on ACIR have also been active in the pursuit of economic growth. Pennsylvania's Governor Richard Thornburgh has spearheaded such initiatives as the Benjamin Franklin Partnership and the MIL-RITE Council (for "Make Industry and Labor Right in Today's Economy"). Among other things, these ventures have linked officials of business, labor, and government in a cooperative exploration of such approaches as employee ownership of firms and public "seed money" for venture capital.

In Texas, San Antonio Mayor Henry Cisneros has taken a lead role in attracting high technology. Similarly, Governor Lamar Alexander of Tennessee (formerly ACIR Vice Chairman) has logged many miles of travel to other states and nations, promoting his state's comparative economic advantages. In a recent volume the International City Management Association has outlined the many ways that local governments can play increasingly active (even entrepreneurial) roles in their commu-

nities' economic growth and development.

State and local officials of all political persuasions are increasingly forsaking passive roles in their jurisdictions' economic futures, realizing not only that the well-being of their constituents but their governments' own future revenues are hanging in the balance. Such state-local activities should not be viewed as merely redistributing jobs or income but as creating wealth through new goods and services and through more efficient forms of production better attuned to community economic circumstances. Truly, this creative ferment provides yet another example of states and localities serving as the laboratories of federalism.

Scholars too are beginning to emphasize the powerful subnational influences on the national economy. In her most recent book, **Cities and the Wealth of Nations**, Jane Jacobs holds that the economic health of any nation is dependent upon the health of its cities. She argues that most economic wealth is created in cities, where new and branch establishments are born and grow. Professor Norton Long has long reasoned that a nation of economically dependent cities cannot be really independent. His challenge to both elected officials and academics is to develop ideas and policies that will encourage cities to act as limited political economics.

The implications for intergovernmental relations and American federalism are profound. ACIR's John Shannon has suggested that forces for change in federal-state-local relations have already begun, operating through what he calls "de facto" federalism, which is driven by budgetary and social realities. ACIR has been active in the connection between economic growth and intergovernmental tax policy, e.g., the debate on states' taxation of multinational corporations. A recent example shows the importance of this tax issue. In order to attract a \$15 million Japanese plant, Indiana made plans to change its tax laws to repeal the use of

worldwide unitary taxation.

These trends and issues have surfaced in the public hearings we have been holding around the country. State and local officials, as well as representatives from the business and academic communities have provided diverse testimony that has a common ring: The constitutional, political, and fiscal understandings that have underpinned American federalism need rethinking and rebuilding.

This task is of course an appropriate activity for ACIR. It is also timely in light of our upcoming bicentennial celebration of the drafting of the U.S. Constitution, establishing the first government ever created through reflection and choice.

The initial challenge will be to understand better the economic, social, and technological forces that will be affecting our society in the next decade. Likewise, we will be required to assess where our past work continues to be relevant and where it needs to be rethought. Let me suggest areas where our past work still holds firm and, alternatively, where it must give way to new thought and policies.

Three general tenets seem to me still valid:

- Policies, whether constitutional, political, or administrative, should always seek to promote balance in the federal system—providing the citizens and leaders of various governments with adequate authority for independent action.
- Our long-standing commitment to a strong and independent local government sector is as sound today as it was when ACIR began.
- Fiscal equity is an important concern in any federal policy.

All future research should stand on these foundations of past ACIR work. Where we must look for change is in the following areas:

- We must move away from solutions that try to imposed single,

And Briefly: Books

large-scale governments on our metropolitan areas. Instead we should consider drafting policy recommendations that recognize the various scales of government that a diverse and dynamic urban environment requires to operate effectively. Recent research suggests that the alleged virtues of large-scale government have been greatly overestimated.

- We must also take a hard new look at state-local relationships to see how they can be rebuilt to meet changing times.
- Finally, we must better understand a structural matter: how the intergovernmental allocation of powers, functions, and responsibilities influences governments and their operations. Evaluating government performance in terms of equity, efficiency, and responsiveness is not a matter of political philosophy alone. These concerns are voiced in every election and are rooted in the everyday consequences of legal and political structures. No intergovernmental system can be considered fair or effective that conceals fiscal and political accountability or that causes a mismatch between a government's responsibilities and its resources.

Society is clearly moving faster than many of us in the policy process want to admit. Yet this ferment offers the challenge of opening up policy areas once thought to be quiet, but now buzzing with exciting issues of federalism. Perhaps Professor Daniel J. Elazar's notion of federalism as self rule through shared rules can provide at least a focal point for thinking about how we govern America during the third century of our experiment in self governance.



Robert B. Hawkins
Chairman

The following publications are reports issued in 1984 by the Advisory Commission on Intergovernmental Relations.

Regulatory Federalism: Policy, Process, Impact and Reform (A-95).

Over the past two decades federal policymakers have increasingly turned to regulatory programs to encourage state and local governments to perform a particular activity or provide a particular service. This report discusses the growth and operation of these new forms of intergovernmental regulation. It identifies four major types of regulatory programs affecting state and local government, discusses their growth and impact on state and local government, and traces regulatory reform initiatives. The final chapter provides the Commission's conclusions and ACIR's own strategy for reforming federal regulation of state and local governments.

Jails: Intergovernmental Dimensions of a Local Problem (A-94).

This report discusses major issues and problems facing local jails and analyzes major alternatives currently available to using jails. The report also discusses state-local relationships as they effect the operation of local jails and the federal judicial role in local jails. The report includes the Commission's proposals for local adult correctional reform.

Staff Working Paper

"Tax Burdens for Families Residing in the Largest City in Each State, 1982."

This study examines the amount of taxes that a typical family of four living in the largest city in each state would pay in selected federal, state and local taxes.

Significant Features of Fiscal Federalism, 1982-83 Edition (M-137).

This year's edition of **Significant Features** provides updated information on federal, state and local revenues and expenditures, employment, earnings and tax rates. Section

I provides historical and state-by-state information on specific public finance topics. Section II provides in-depth analysis of public finance topics for individual states.

Financing Public Physical Infrastructure (A-96).

This report studies the intergovernmental aspects of financing public physical infrastructure. It examines post-war trends, concerns about the rate of new investment and forces currently helping to solve physical infrastructure problems. The report finds that public physical infrastructure problems differ greatly from place to place. Efforts by each level of government are helping to solve some serious infrastructure problems but these efforts can be assisted by balancing capital and maintenance needs, by allowing flexibility in construction standards, and by emphasizing infrastructure-related research and development.

The following publications are available directly from the publishers cited. They are not available from ACIR.

Pragmatic Federalism, by Paris Glendening and Mavis Mann Reeves, 2nd edition, Palisades Publishers, P.O. Box 774, Pacific Palisades, California 90272. \$12.95

Public Policy and Politics in America, by James E. Anderson, et al, 2nd edition, Brooks/Cole Publishing Company, Monterey, California 93940.

Small Cities and Counties: A Guide to Managing Services, edited by James M. Banovetz, International City Management Association, 1120 G Street, N.W., Washington, D.C. 20005. \$28.50.

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