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Intergovernmental **PERSPECTIVE**



States,
Localities
Modernize
Machinery of
Government

View From The Commission



Dear Reader:

This issue of *Intergovernmental Perspective* is an important one to me and other practitioners in the state-local realm for it concentrates on what has been happening in our intergovernmental system outside of Washington over the past 20 years or so. It chronicles both the tremendous change in the capacity and willingness of states to make the hard decisions and assume the tough assignments, and similar improvements in local governance in these United States. Washington is not forgotten here, of course, for it has both shaped and stymied state assumptions of new and more prominent functional roles and has had a notable impact on urban development, local government structure and management, and substate regionalism.

Too often, I believe, the press, the public, and even those who write about and analyze intergovernmental issues, concentrate their attentions on what is happening in Washington. While decisions made on the

banks of the Potomac are important to varying degrees to those of us at the state and local level, they are not the only—and in some cases, not even the most important—decisions made by government. Every day state and local policymakers make tough choices, solve problems and make plans for a well-functioning tomorrow. We even, frequently and increasingly, come up with innovative programs and services which later are introduced in Washington. Indexation of the income tax—pioneered by my own state of Colorado three years ago—and sunset legislation—also enacted in Colorado—are two such programs which come to mind and which we can still hope Congress will enact.

As David Walker points out in the first article, the states have come a long way over the past 20 years and have accumulated a record of which we can be—and are—proud. Yet there is still so much to be done. States must continue to serve as innovators, responsive to both the needs of our citizens and the times. We still have a strong tendency to run to Washington pleading for more money or less regulation, when what we should do is look to our own devices and resources—a task that is harder politically, but, I feel, more satisfying and certainly more conducive to stronger states and a better balanced federal system. It is my opinion that states today would rather act ahead of time to meet their own needs than be forced to react to a problem situation

often thrust upon them by the federal government.

Local governments also have heavily relied on intergovernmental grants, often as a substitute for local government restructuring. Federal money cannot and should not assume this important function, according to the Commission. Rather, states should act to meet the needs of their substate governments—localities and substate regional bodies alike. For while there have been significant improvements in these governments over the past few years, there could be still greater advancement if there was state encouragement in the form of state legislation allowing local “home rule” and formally establishing and adequately funding substate regions. The two companion articles in this *Perspective* by Albert Richter and Bruce McDowell describe recent developments in the substate area and outline the form state action should take to further advance this development.

I think it's great that ACIR has again examined the “nuts and bolts” issue of state-local functions and structures and has devoted this issue of *Intergovernmental Perspective* to that study. I am especially pleased to be able to introduce this important topic.

A handwritten signature in cursive script that reads "Fred E. Anderson". The signature is written in dark ink on a light background.

Fred E. Anderson
President, Colorado State Senate

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Intergovernmental FOCUS

GRS, Other IGR Proposals Await Post-Election Session

When Congress adjourned for the election on October 2, many important legislative proposals with intergovernmental significance were left in abeyance. Still awaiting action are bills dealing with General Revenue Sharing, federal grant reform, sunset, federal fiscal notes, and payments in lieu of taxes.

Preeminent among these proposals is the General Revenue Sharing (GRS) renewal legislation. The GRS renewal effort, slowed throughout the session by debate over states' inclusion in the program, stalled in the final days before adjournment. Both the Senate version (S. 2574), and the House version (H.R. 7112-H.Rept. 96-1277) presumably will be considered after Congress reconvenes on November 12.

Important differences between the House and Senate versions of GRS will be central to the remaining deliberation on the program. The House proposal, reported out by the Government Operations Committee, excluded the states and renewed the program for only three years, through 1983. The House version contains a \$4.6 billion entitlement for local governments, the same amount they received under the existing program. The Senate Finance Committee voted to renew the program for five years, fiscal 1981-85, and included the states (except no revenue sharing payments would be made to states in fiscal 1981). The Senate version contains a \$4.6 billion mandatory entitlement for local governments, and a \$2.3 billion annual authorization, subject to discretionary appropriation, for the states.

GRS renewal is further complicated by the addition of differing House and Senate countercyclical aid programs. The Senate approach would distribute antirecession assistance when the national unemployment level equals or exceeds 7.5% for a calendar quarter. The House bill uses real wage, salary, and gross national product levels to

trigger countercyclical payments when those levels decline for two successive quarters.

Despite this troubled prognosis for GRS, the many public officials who view the program as the most efficient and effective of our intergovernmental aid mechanisms are adamant in their support for it. The post-election Congressional session promises to see a massive renewal of the effort to reauthorize a full-scale General Revenue Sharing program.

Like GRS, a second important intergovernmental bill, the "Federal Assistance Reform Act of 1980" (S. 878, H.R. 4504), remains in legislative limbo until after the election. This five-title grant reform proposal would encourage grant consolidation, simplify certain requirements generally applied to grants, simplify audits, renew and strengthen the joint funding process, and provide grant recipients with some regulatory flexibility. This proposal, the first substantial piece of grant reform legislation since the Intergovernmental Cooperation Act of 1968, received a lengthy hearing in the Senate. The Governmental Affairs Committee reported the bill without dissent and the proposal now awaits Senate floor action. The House, however, has taken no action on the companion proposal, H.R. 4504.

Sunset legislation, seemingly a certain candidate for passage at the beginning of the 96th Congress, made only slow progress in this session, and was so altered during Congressional deliberations that its potential effectiveness is jeopardized. Initially, the sunset concept provided for a periodic review of all federal programs and the automatic termination of all programs not specifically reauthorized by Congress.

Advocates of sunset point to this program review and termination process as a desirable way to encourage Congressional oversight and to slow the rapid growth of federal programs.

The Senate Governmental Affairs Committee reported a strong

sunset proposal designed to limit government growth. Because of a sequential referral, however, sunset was sent next to the Committee on Rules and Administration, where it was substantially weakened. The Rules Committee substitute eliminates the automatic termination provision, as well as the schedule requiring committees to review similar programs at the same time. The substitute drops also the minimum criteria for all sunset reviews and the special criteria for detailed review of priority programs. Finally, the Rules Committee substitute eliminates the regulatory impact portion of sunset, which would initiate a cooperate executive and legislative branch examination of all federal regulatory agencies, over a ten-year period.

House passage of sunset also is uncertain. The primary proposal, H.R. 5858, contains no automatic program termination provision, and permits authorizing subcommittees to preselect programs to be reviewed.

On a brighter note, several positive legislative opportunities lie on the horizon for the post-election session, as well as for the 97th Congress. The House and Senate are nearing agreement on a measure that would require a cost estimate, or fiscal note, on all proposed federal laws that would impose substantial costs on state and local governments.

In all likelihood the House version, H.R. 3697, will be tailored to conform with S. 3087, the recently introduced proposal of Sen. James Sasser (TN), thereby expediting Congressional approval. The Sasser bill sets a minimum level of \$200 million in the cost of federal legislation to state and local governments before the Congressional Budget Office would be required to prepare a cost analysis. Exceptions to the threshold level would be made if disproportionate costs were to be imposed on one type of government or on a particular region. S. 3087 also contains a sunset clause which would terminate the process on September 30, 1984. The House and

Senate fiscal note proposals should receive attention soon after Congress reconvenes.

Legislation based largely on recent ACIR research on payments in lieu of taxes (PILOT) also was introduced recently. Virginia Rep. Joseph Fisher's proposed "National Payment-In-Lieu-of-Taxes Act of 1978," H.R. 8231, would make federal grants to local governments for property exempt from property taxation, when that property is owned by the United States, a foreign government, or an international organization. Recognizing the inadequacy of the current ad hoc approach to payment-in-lieu-of tax programs and need for full tax equivalency cited in ACIR's forthcoming report on payments in lieu, H.R. 8231 would establish a comprehensive program of payments to local governments. This program, which would supplant ten of the 57 existing PILOT programs, would be administered by the General Services Administration. The Fisher proposal will be reintroduced with additional cosponsors in the 97th Congress.

Labor-Style Negotiations Process Works for Three Cities

The confusing and frequently conflicting maze of intergovernmental relations presents a challenge to the various partners in our federal system. The recurring problem of getting representatives from all three levels of government to work together effectively may have been alleviated, at least in three cities. An experiment in intergovernmental relations, called the Negotiated Investment Strategy (NIS), is being conducted in three cities under the sponsorship of the Kettering Foundation.

The unique feature of the NIS experiment is the use of a neutral mediator to resolve disputes among representatives from the federal, state, and local levels of government. Local officials establish local priorities, (essentially writing a "local plan") and identify public and private resources which can contribute towards their accom-

plishment.

In St. Paul, MN, the noted labor negotiator and former Secretary of Labor, W. J. Usery, worked to put together a package in just four months. The St. Paul goal was an agreement to tap public and private resources for the development of industrial and housing projects in the city. A total of \$40 million in federal funds were committed towards that goal by a number of federal agencies. St. Paul expects to stimulate at least \$150 million in private investment to produce a model of efficient energy use and energy-related industries.

In Columbus, OH, the second city in the NIS experiment, Mayor Tom Moody said, "Money is not an issue. . . . The difference is that money is likely to be approved at the time it is needed." In Columbus, the NIS process initially focused on strengthening the intergovernmental process. Policy issues were paramount. One victory for the city was the establishment of an advisory board at the local level to be involved in the designation of historic properties. Prior to the advisory board's establishment, the city was frequently left out of the nomination and designation process and redevelopment projects frequently had to be delayed as a result. Now the state has agreed to contact the local board before recommending that a property be included on the National Registry of Historic Places. Negotiations in Gary, IN, are still pending and should be concluded by the end of November.

It is too soon to tell whether the NIS approach would work elsewhere. In Region V, where all three cities are located, the Federal Regional Council (FRC) proved it could effectively represent federal interests in the negotiating process. However, federal decisionmaking is usually not a decentralized process and it remains to be seen whether other FRCs are willing to take on similar endeavors. The question of transferability is being considered by an examination panel administered by SRI International. Wayne

Anderson, Executive Director of the ACIR, is a member of this panel.

Convocation on Federalism Gains Congressional Support

"Modern federalism (is) a confusing and impenetrable maze," Sen. William V. Roth (DE) said as he introduced a resolution (S.J. Res. 204) to provide for a National Conference on Federalism. Sen. Roth says that a national conference is needed because, "In many respects, our federal system no longer works as it was intended" and it is time to assess the roles of the federal, state, and local levels of government.

Sen. Roth, a longstanding member of the Advisory Commission on Intergovernmental Relations, spoke for the Commission as a whole when he expressed his concerns. Following a three-year study on the federal role in the federal system, the ACIR concluded that American federalism's most trumpeted traditional traits—flexibility and workability—are critically endangered. One step in the direction of correcting the system's dysfunctionality, the Commission has recommended, is to call together elected and appointed representatives from all three levels of government to identify an agenda for intergovernmental relations for the eighties, the decade of our country's Constitutional Bicentennial. The Roth resolution embodies the ACIR recommendation for a National Convocation on Federalism.

The conference envisioned in the Roth resolution would take a serious look at ways to reassign responsibilities clearly and openly so that governments at all levels are, once again, made fully accountable to the citizens. The resolution provides for a strong ACIR role in the planning and coordinating of conference activities. As a nonpartisan, independent commission which has studied the federal system for over 20 years, the ACIR role was cited by Sen. Roth in an effort to isolate the conference from unnecessary controversy or political interference.

The States and the System: Changes And Choices

by David B. Walker

Over the past decade and a half, structural, administrative, and fiscal changes within the states have come at a pace that few would have forecast in 1960. "Anti-quoted," "weak sisters," "indecisive," and "fallen arches in the federal system" were but some of the nasty terms applied to states in the fifties and early sixties. Yet, given the stand-pat stance of most of them prior to the early sixties and stretching back into the twenties, these characterizations for the most part were accurate. But no longer. No other 20-year period in American history produced as many changes in the architecture and activities of state government as the last two decades.

Toward Stronger States

Over the past 20 years, significant changes have occurred in the nature and role of states in the federal system. In every state, efforts were undertaken to promote greater efficiency, economy and accountability by enhancing the authority of the Governor, the legislature, and the highest state court. The common themes were improved management, professionalism, and unshackling. Changes were both institutional and fiscal.

Institutional Innovations

The contrasts between the prevalent state institutional pattern of 1960 and that of 1980 are dramatic. (See *Figure 1*.)

The dominant state structural pattern in 1960 was formally one of heavy administrative and decision-making fragmentation, functional and agency separatism, firm shackles on the political and judicial branches, and a fairly restricted, hard-to-access policymaking process. Today's formal set-up, on the other hand, obviously is far less fragmented, freer of shackles, and far more open in its policymaking and administrative processes. Yet, it is the broad outline of the formal structure of state government that is described here, not the informal (political) workings. Moreover, we are dealing with a series of orthodox managerial and professional concepts since these were the guiding principles for nearly all of the "reforms" that occurred since 1960.

Both the state executive and judicial branch reform precepts date back to the Progressive Era. With the former, it goes back to 1919 and A.E. Buck's six reorganizational principles: concentration of authority and responsibility in the Governor's office, functional integration through departmentalization, abolition of or restricted roles for multimember boards, coordinated central staff services, an independent audit, and establishment of a Governor's cabinet.¹ With the judiciary, it was Dean Roscoe Pound's 1906 lecture on "The Courses of Popular Dissatisfaction with the Administration of Justice" that provided the essential goals of reform: unification, flexibility, responsibility, and the conservation of judicial power.² In the case of the legislatures, their "unshackling" goal (annual and largely unrestricted sessions, better pay, strengthened committees, professional staff, and a legislative audit) emerged much later³ and coincidentally the legislative reforms generally were less impressive (reapportionment excepted) than the others.

Some Caveats. Before concluding that managerialism, professionalism, and unshackling carried the day at the state level, it is prudent to recall that in

¹A.E. Buck, *The Reorganization of State Governments in the United States*, NY, 1938, pp. 14-27.

²Dean Roscoe Pound, "Principles and Outlines of a Modern Unified Court System," 23, *Journal of American Judiciary Society*, 226, 1940.

³Some would date it to the period during the sixties when Jesse Unruh was Speaker of the California Assembly.

the early 1960s there was a proliferation of constitutional and statutory officers, departments, and agencies, as well as multimember boards and commissions in the executive branches. There was also an

equally fragmented and only loosely hierarchic judicial system and shackles of all sorts constraining the legislatures. All this was not swept aside during the past 20 years.

Figure 1

STATE "INSTITUTIONS" 1960 AND TODAY

- Only five state constitutions had been overhauled (including the newly enacted ones in Alaska and Hawaii) during the years 1930-60, compared to 11 between 1960 and 1980.
- Fifteen states in 1960 still saddled their Governors with two-year terms, as against only four now, and 16 prohibited their chief executives from succeeding themselves, compared to five in 1980.
- Forty Governors were the focal point of an executive budget process 20 years ago, compared to 47 now.
- Half of the states in 1960 had centralized major components of their general management and finance functions as against approximately three-quarters today.
- The short executive ballot (four offices or less) prevailed in only three states then, but in nine now. Overall, however, 24 states reduced the number of elected state officials since 1960 (though all clearly did not approach the "short ballot" norm, since 15 took no action, and 11 added officials, making their ballot even longer than it was in 1960).
- The proliferation of boards and agencies was a common phenomenon in the fifties (with one survey of 23 states finding only two having less than 50).¹ The 23 major (not to mention the partial) executive branch reorganizations between 1965 and 1979, however, achieved a significant lowering in the number of independent administrative agencies. Connecticut's 1977-79 reorganization, for example, reduced its number of such units from 210 to 22. At the same time, independent boards and regulatory commissions were largely untouched by this movement.
- The proportion of all state permanent employees covered by some form of merit system protection hovered a little over the 50% level in 1960,² but by 1980 the percentage had risen to the three-quarters mark even as the total number of state employees rose from 1.5 million in 1959 to over 3.6 million two decades later.
- All but five state legislatures in 1960 were heavily malapportioned (and at least two dozen of the 99 separate bodies—Nebraska being unicameral—were placed beyond the reapportionment process by state constitutional provisions); whereas at present all of the legisla-

tures are appointed according to the "one person, one vote" principle, thanks chiefly to *Baker v. Carr* and its follow-up decisions.

- Only three states in 1960 had most of the basic elements of a "reformed" integrated state-local judicial system with the figure rising to 18 by the late sixties and to the three-quarters mark now. Elements of such a system include assignment of clear administrative as well as jurisdictional authority to a state's highest court, providing court administrators at the appellate level (49 states), instituting judicial qualifications commissions or courts of the judiciary to handle discipline and removal problems (41)—all with a view toward enhancing unification, flexibility, and the conservation of judicial power within the 50 systems.³
- While two decades ago 31 legislatures operated primarily on a biennial session basis, today only 14 function in this fashion and these frequently are called into special session in the second year.
- Standing committee structures were a proliferating phenomenon in 1960 with the median combined figure for both houses standing at 48,⁴ but today three-fifths of the lower chambers and nearly four-fifths of the state senates have 20 standing committees or less.
- Only three legislatures two decades ago had over five professional staff members in their reference service and only three had a comparable number in their legal services units, while today an array of central staff services are provided by these and other units in practically all of the states.⁵
- No state staffed its standing committees in both houses in 1960, while 36 do so now.⁶
- Over half the state constitutions then restricted regular legislative sessions to 60 legislative or calendar days or less. At this point the figure is 19.
- The auditing function was a legislative prerogative in only nine instances in the early sixties, compared to 20 now.

¹See Advisory Commission on Intergovernmental Relations, *State-Local Relations in the Criminal Justice System*, Report A-38, Washington, DC, U.S. Government Printing Office, 1971, pp. 184-206.

²Russell L. Smith and William Lyons, "Legislative Reform in the American States: Some Preliminary Observations," *State and Local Government Review*, May 1977, p. 38.

³See The Council of State Governments, *The Book of the States*, 1980-81, Vol. 23, Lexington, KY, 1980, pp. 130-37.

⁴*Ibid.*, p. 129.

¹Council of State Governments, *Reorganizing State Government*, Chicago, IL, 1950, p. 12.

²Much of this was due to federal merit system requirements in aided welfare and employment security programs.

Some of the figures relating to contemporary legislatures suggest that the traditional "citizen" legislature ideal by no means was replaced totally by the "professional" norm. With executive reorganization, political, economic, administrative, and sometimes historic factors combined to modify the full application of the orthodox administrative principles.⁴ Thus, education departments or boards, attorneys' general offices, other constitutional posts, and quasi-regulatory boards and commissions rarely have been touched by executive reorganization plans. Furthermore, a third of the reorganizations achieved during this period were of the "traditional type," or in the words of George Bell, they involved a "reduction of the number of agencies—to some degree within the existing pattern of agencies headed by elected officers, boards, and commissions."⁵

While judicial reform proceeded more uniformly and at a faster pace than changes in the other branches of state government, all or most of the judicial officers in over half the states (27) are elected and in ten instances, on a partisan ballot. All this suggests that the older state values of representativeness, of administrative pluralism, of achieving accountability through severe institutional constraints, and of hostility to concentrated gubernatorial power have not disappeared. Instead, they still compete with the newer managerial, professional, and unshackling themes to greater or lesser degrees within each of the 50 states.

Having cited the necessary caveats, the statement still can be made that the past 20 years witnessed more changes on more state structural fronts than any other comparable period since the drafting of the first state constitutions.

Greater Fiscal Resourcefulness

Nearly the same generalization can be made regarding the shifts in state finances. The overall state share of total state-local taxes surpassed the locals' for the first time in the early sixties, and at this point it has reached the 58% mark. The sustained strength of general and selected sales taxes along with the growing significance of state income tax as a proportion of all state taxes (from 19% in 1969 to 35% in 1978) largely explain the emergence of this senior state fiscal role within the 50 systems. Underpinning this, of course, was the adoption of a personal income tax by 11 states, of a corporate income levy by nine, and of a general sales tax by ten during the period 1960-1979. These 30 enactments helped produce a state fiscal picture in 1979 where 41 had a broad-based income tax; 45, a corporate income levy; and a like number, a general sales tax. Generally 37 states used all three of these revenue sources in 1979, compared to 19 in 1960.⁶

⁴James L. Garnett, *Reorganizing State Government: The Executive Branch*, Boulder, CO, Westview Press, 1980, p. 12.

⁵George A. Bell, "State Administrative Organization Activities 1972-1973," *Book of the States, 1972-73*, Lexington, KY, The Council of State Governments, 1972, p. 138.

⁶Alaska scrapped its personal income tax in 1980.

While all this suggests much more balanced and productive state tax systems generally, the degree of dependence on one or another of the major direct taxes still varies greatly as do the tax burdens that the 50 systems place on their respective citizens. Yet, none can argue that state fiscal efforts generally are far more impressive than they were two decades ago and that these, in turn, have had a significant effect on the states' servicing capacity.

Why the Change?

Why have these past 20 years witnessed so many dramatic institutional and fiscal changes at the state level?

The range of conflicting reasons brought forth to explain executive branch reorganization provides a little help, but only a little. The traditional public administration argument, in effect, was that reorganization principles were standards which persons of integrity and judgment should adopt.⁷ An opposite view is that reorganization is part of a "political process aimed at political ends."⁸ A third uses the basic socioeconomic traits of a state's citizenry as the basic determinants of bureaucratic change.⁹ A fourth interpretation focuses on the spread of ideas, policies, and innovations across the states as an explanation,¹⁰ while another relies on the simple and obvious need to update administrative operations as the basic cause for periodic reorganizations.¹¹

Of the five possible explanations, the one relying on political causes stands out thanks primarily to reapportionment, the Voting Rights Act of 1965, and later amendments to it. These federally imposed representational and franchise changes after all ended the rural and, in some cases, racist domination of state systems, widened the interest group basis of state political coalitions, transformed the role of most legislatures, and helped provide the basis for more open, more accessible, and more representative systems.¹² It is not merely coincidental that the most widespread restructuring of state government occurred during the decade and a half following the crucial *Reynolds v. Simms* reapportionment decision. George Bell, the closest observer of state reorganizations during this period, deemed reapportionment "the most important factor" in explaining the flood of developments that began in the mid-sixties.¹³ And most of the real beginnings of legislative reform occurred once the reapportionment was accepted and no longer fought.

The "reorganization as a product of diffused innovation" interpretation also has some explanatory

⁷Garnett, *op. cit.*, pp. 11-13.

⁸*Ibid.*, p. 13.

⁹See Jones J. Noell, "On the Administrative Sector of Social Systems: An Analysis of the Size and Complexity of Government Bureaucracies in the American States," *Social Forces*, 52, June 1974, p. 556.

¹⁰Garnett, *op. cit.*, pp. 17-21.

¹¹Frederick C. Mosher, editor, *Governmental Reorganization: Cases and Commentary*, Indianapolis, IN, Bobbs-Merrill, 1967, p. 494.

¹²Kenneth T. Palmer, *State Politics in the United States*, Second Edition, New York, NY, St. Martin's Press, 1977, pp. 15-16 and 66-67.

¹³Bell, *op. cit.*, p. 141.

“ The range of conflicting reasons brought forth to explain executive branch reorganization provides a little help, but only a little. ”

relevance. Examples where states have followed Washington's lead were creation of state counterparts to federal departments and agencies established in the 1960s and later—notably Health, Education, and Welfare (minus education for most emulating states), Transportation, Energy, and the Environmental Protection Agency as well as budgeting innovations like PPBS (program, planning, budgeting systems). Moreover, the “follow the state leader” phenomenon also played a role in administration and policy innovation between and among the states during this period. Summary research indicates that the state departmental or agency “leader” shifts from state to state depending on functional areas and that this interstate diffusion of innovations was a vital part of the recent reform record.¹⁴

As significant as any of all of the above, of course, is the “reorganization as modernization” explanation. State governments after all generally were undergoing dramatic expansions in their fiscal roles as revenue raisers, financiers, service providers, and federal aid recipients as well as their functional assignments as regulator, direct service provider, and as transfer agent for and supervisor of their own and federal grant funds.

One study which tested four of these hypotheses in terms of all major state reorganizations occurring between 1900-75 concluded that such actions “occur as a result of a variety of forces acting at different times under different conditions.”¹⁵ Circumstantial and inferential evidence would suggest that this generalization is partially valid for the most recent and widespread wave of reorganizations and that it applies as much to the legislative and judicial as executive branch restructuring.

New Roles in the System

In assessing these and other overall systemic developments, Sam Beer contends that the modern state role is to assure two basic functions: (1) planning and controlling big and frequently intergov-

ernmental programs and (2) using its position as an intermediate level of government and politics to mobilize political consent for these programs and other modernizing undertakings.¹⁶ According to Beer, states became main instruments of social choice and politics during the Jacksonian era. During the Republican period of 1860-1930, they evolved to “laboratories of experimentation”—especially in the regulatory area. In the New Deal and post-war years, they assumed an assisting role of carrying out national policies through the grant-in-aid system.¹⁷

The forces of modernization (scientific and technological advances and the steady democratization of services and other wants), in his view, converted the federal government into the prime instrument of social choice, but they simultaneously have assigned the states these two significant functions.

This insightful intergovernmental interpretation of states' adaptation to modernization is certainly borne out by many of the fiscal, functional, and structural developments over the past decade and a half as they relate to the states and their role in the federal system. As the paramount subnational governmental provider of intergovernmental aid and as the recipients of the lion's share of federal aid (between 78-80% in any recent fiscal year), the states have assumed a pivotal middleman's role in the planning, supervision, and sometimes the direct running of large, costly, and significant intergovernmental programs and on a shared cost basis.¹⁸ Moreover, the dominance of fiscal issues in state politics and the prominence in recent years of traditional state issues such as education, social services, welfare, and transportation—to cite the more obvious—only tends to corroborate the Beer thesis of the states serving as mobilizers of political consent for their newly assigned functional role.

Washington: Help or Hindrance?

The irony here is that while on one hand Washington is facilitating state assumption of a modernized functional role, on the other, it is thwarting this assumption through continued reliance on measures such as the traditional “single state agency” requirement stipulating that one agency be designated to administer an aided program. Despite Section 204 of the Intergovernmental Cooperation Act of 1968 which permits its waiver under certain circumstances, this requirement is still frequently used, although its impact now is to convert the reorganized departments into “holding company” operations, with major program authority left with the merged administrative units.

Increasingly popular in Washington these days is another structural requirement, this one calling for a “single organizational unit.” Here, not only is the establishment of a separate agency to administer

¹⁴Alfred R. Light, “Innovations in State Administration,” *American Politics Quarterly*, April 1978, p. 163 and Advisory Commission on Intergovernmental Relations (ACIR), *State Administrators' Opinions on Administrative Change, Federal Aid, Federal Relations*, Report M-120, Washington, DC, U.S. Government Printing Office, 1980.

¹⁵Garnett, *op. cit.*, pp. 160-61.

¹⁶Samuel H. Beer, “The Modernization of American Federalism,” *Publius*, Vol. 3, No. 2, Philadelphia, PA, Center for the Study of Federalism, Temple University, Fall 1973, pp. 81-87.

¹⁷*Ibid.*, pp. 54-57.

¹⁸States, it is to be remembered, have not benefited significantly by the lowering or elimination of federal matching requirements, but their localities have.

the aided program insisted upon, but its partially or fully paid federal personnel must work exclusively on that program (as with the state planning agencies under the Safe Streets program, and state agency recipients of various EPA, Labor, and Interior grant funds).¹⁹

In some cases, the grant statute is even more prescriptive organizationally. The Rehabilitation Act of 1973, for example, goes beyond the "single state agency" provision to stipulate that if the state agency is not primarily concerned with rehabilitation, then it must include a unit within it that is and that has a full-time director (and staff) with adequate direct authority over field staff. In the Medicaid regulations, to cite another example, a state must provide for the licensing of nursing home administrators by a state board in which no single profession or institutional type has a majority of the members.

The most remarkable of federal organizational dictates is found in the National Health Planning and Resources Development Act of 1974 which requires states to designate a Health Planning and Development Agency (HPDA) to perform the planning called for under the Act as well as to administer the required "certificate of need" program (which in turn usually necessitates state legislation). States must also form State Health Coordinating Councils (SHCCs) to approve state plans, review all applications for federal grants for health care, and advise HPDA—all under the penalty of a cutoff of all health funding under a range of grants if these organizational conditions are not met. The organizational detail, specificity of composition, and prescribed relationships with other units found in these examples extend beyond what the grant statutes of the sixties called for, not to mention those of the pre-1960 period.

These and other federal grant-related structural requirements have done little to enhance the states' ability to plan and supervise major intergovernmental programs. But they have enhanced state agency autonomy and linkages between state agencies and their Washington counterparts that are so much a part of today's system and that are fundamental obstacles to any state efforts to assume an effective coordinative managerial role.

Process Requirements

Required procedures and processes have been a far more prevalent source of federal influence on state administrative actions than structural requirements. These include most of the three score horizontal requirements which apply "across-the-board" to virtually all grants and hundreds of specific program-related conditions attached to the individual grants. Requirements in these two groups can be subdivided into those that are (1) improving or facilitating, (2) necessary but intrusive, or (3)

“ . . . federal grant-related structural requirements have done little to enhance the states' ability to plan and supervise major intergovernmental programs. ”

arbitrary and counterproductive. In the first or "across-the-board" group, state and local administration-related efforts, such as OMB Management Circular A-95,²⁰ would fall under the facilitative or at least not harmful grouping; the public employee standards, environmental protection, and most of the nondiscrimination conditions would be viewed as necessary, though sometimes arbitrary and unnecessary; and the labor and procurement standards, access to government information and decision processes, and Section 504 of the Rehabilitation Act of 1973 would be interpreted generally as coercive and counterproductive. If the hundreds of grant-specific conditions could be arrayed on a spectrum, a similar classification would probably emerge.

Perhaps the most significant feature of these federal procedural requirements, however, is their combined influence on the administrative activities subsumed under the states' central management functions (planning, budgeting, auditing, personnel, and purchasing) not to mention related support and actual program delivery efforts of the state departments and agencies. This merging of vertical and horizontal conditions at the state agency level tends to blur the focus of aided programs, engender piles of paperwork, and increase the need for vertical communications with disbursing federal agencies.

Needless to say, the task of state central management units generally is not strengthened in this process, even though some of the cross-cutting conditions are intended to bolster their coordinative capacity. The combination of vertical and horizontal conditions would appear then neither to enhance the states' overall planning and managing role nor to promote effective program implementation at the agency level.

Views of State Officials. Recent surveys of state administrators conducted by Deil Wright for ACIR illustrate the heavily negative reaction of central management and state departmental and agency heads who are involved with federal aid programs to the issue of federal intrusion.²¹

Federal influences have not been all negative or undermining, however. According to related surveys, some of the procedural requirements have been help-

¹⁹See Northwest Federal Regional Council, *Red Tape in the Federal Supermarket*, 1976, pp. 27-28.

²⁰This circular, among other things, seeks to improve intergovernmental communications and planning.

²¹ACIR, *op. cit.*

ful. The various federal management circulars (FMC 74-7: Uniform administration requirements for grants, FMC 74-4: Cost principles applicable to grants and contracts, and FMC 73-2: Audit of federal programs by executive agencies) have been supported by state budget officers.²² Moreover, the Catalog of Federal Domestic Assistance was found to be helpful.²³

Federal incentives also have helped strengthen Governors institutionally. The rapid expansion of central state planning units was aided by HUD "701" planning funds and of community affairs units by a variety of federal funding sources including "701."²⁴ Neither of these expansions was in any sense mandated by federal action, of course. But, they were federally assisted in most cases and, while not all planning units or departments of community affairs have performed well as coordinative units, in most instances they are instrumentalities of the Governor. Thirteen of 50 state policy planning offices, as of 1977, were located in the Governor's office or the executive department, while seven were housed in departments of administration over which the Governor usually has significant control. With the community affairs units, some 30 of the 50 enjoyed cabinet-level status (either alone or with economic development), as of June 1978.²⁵ There have been some generalist-to-generalist strengthening moves then on the federal part.

On balance, however, the multiple federal vertical and horizontal requirements and conditions have achieved an impact that simultaneously strengthens program specialists yet blurs specific program goals. This not only undercuts the planning and supervisory role of the Governor and his central management units, but it also undercuts the single program focus of the old functionalist-to-functionalist relationships, since the horizontal mandates diffuse specific program purposes. In administrative, organizational, and certainly reorganizational terms, these federal influences demonstrate no clear federal understanding of the states' new functional role in the system or of the organizational and administrative changes that this role requires. And this role, it is to be remembered, is one that has been as much shaped by the federal government's refusal to assume more direct servicing responsibilities as it has by the states' own initiatives.

A Continuing and Conflicting Third State Role

Having said this, the states' own adaptations to their new functional assignments have not been all

²²ACIR, *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials*. Report A-54, Washington, DC, U.S. Government Printing Office, 1977, pp. 93-95.

²³*Ibid.*, p. 96.

²⁴William E. Bivens and Joseph S. Marinich, *State Departments of Community and Economic Development: Framework for Coordinating Implementation*, Washington, DC, Council of State Community Affairs Agencies, June 1978.

²⁵Council of State Planning Agencies, *State Planning Series 4* by The Research Group, Inc., Atlanta, GA, Washington, DC, 1977, pp. 7-8.

that uniform or accepting. The basic reason for this, of course, is that the states perform yet a third function in the system. Their earlier roles after all were not wholly eclipsed by the new intergovernmental programmatic, administrative, and political consensus-building ones. In diverse but definable ways, states still serve as prime instruments of certain social, economic, and political choices for their respective citizenries, just as they did in a bigger way during the years of Jacksonian Democracy and this is reflected in the differing state approaches to taxes, servicing preferences, social legislation, and governmental accountability.

Moreover, they have revitalized their earlier role as experimental laboratories in the system. For example, recent state pioneering efforts in consumer protection, land use regulation, hospital cost control, "sunset" legislation, and public financing of campaigns were first enacted in the states. These and various other contemporary signs of indigenously-generated independent state actions combine to suggest that the states continue to play a unique representational role for the 50 different electorates in the system. This role is reflected in the differing state preferences for programs, procedures, structures, and public financing and it is rooted in the differing political systems, coalitions, and cultures that continue to exert strong internal influences on individual state behavior. Hence, the differing functional assignment, fiscal, and funding patterns among the 50 states. Hence, the uneven and non-uniform approaches to modernizing their governmental structures highlighted here. Hence, the significance of intrastate political competition in achieving administrative changes.²⁶

The undeniable diversity of the 50 states with their varying urban-rural tensions, intersectional conflicts, political cultures, approaches to governmental organization, reorganization, and the pace and direction of modernization²⁷ is best reflected in this representational role that tends to filter and to refract the federal external influences. It provides the basis for each state serving still as a distinctive synthesis of a welter of substate values and preferences—sometimes consensual, but more frequently in conflict. It indicates clearly that the historic fact of each state comprising a distinct

“ In diverse but definable ways, states still serve as prime instruments of certain social, economic, and political choices for their respective citizenries. . . . ”

²⁶Garnett, *op. cit.*, pp. 13-15.

²⁷Palmer, *op. cit.*, pp. 39-55.

political system is also a contemporary one. Finally, this differentiating representational role suggests that the degree to which individual states fully assume the pair of modernization roles and fully accept the needed governmental restructuring posited by Beer depends in large measure on whether their respective representational systems provide indigenous reasons for doing so.

Conclusion

The structural and administrative processes of state government are very different and infinitely more complicated—despite efforts to simplify—from what they were in 1960.

Generally, but by no means uniformly, most have been transformed over the past two decades, largely by relying on the reorganizational approaches of traditional state administrative and judicial reformers.

The reasons for restructuring would appear to include external (largely federally engendered), internal, as well as systemic (relating to the states' overall functional role within the federal system) actions.

The states, to various degrees, now have three roles to play: the traditional but significantly transformed one of serving as differentiating representational units and the newer ones of serving as planner, coordinator, and supervisor of large, expensive, and chiefly intergovernmental programs and as generator of political support for such. These roles, however, frequently conflict with one another, producing varying state responses to the intergovernmental program assignment and to the structural adaptations that are required.

These internal conflicts are heightened by the failure of the federal government to adapt to their actions, and to accept this triad of contemporary state functions. The vertical specific program-related conditions and mandates after all indicate a stronger federal adherence to the national "superintendency" theory of intergovernmental administration than ever prevailed earlier and a concomitant rejection of the states' role as planner, coordinator, and supervisor of big intergovernmental grants. Many of the horizontal federal mandates reflect a distrust of, if not contempt for, state administration and processes, hence of the state's representational role which the Supreme Court did so much to revitalize. Moreover the combined net effect of federal vertical and horizontal conditions curiously has served to reinforce the older state structured values of agency autonomy, administrative pluralism, and functional fragmentation.

Yet, the aggregative impact of federal intergovernmental transfers and of the states' own grant-in-aid and direct servicing efforts do suggest the need for continuing structural adaptations—adaptations that depart from the traditional prescriptions and that recognize the differences between units that

perform a banker and regulatory role from those that directly render a service.

State reshapings of their organization and structure, then, have been extraordinary—judged by the needs and expectations of the mid-sixties—but only a beginning—in light of the difficult, modernizing roles in the system that have been thrust upon them since then.

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Strengthening Local Government: A Call For Restructuring

by Albert J. Richter

A commonly accepted diagnosis of the basic nature of the "problem" of local government (in its most aggravated state, called the "urban crisis") is that localities do not have the power and jurisdictional reach to cope with the ever-changing needs of their residents. Local fiscal resources are not sufficient to meet community needs because of inadequate legal authority and/or geographic base. Economic, social, and natural forces that cause certain problems cannot be handled effectively within constricted local boundaries. The boundaries are too confining to permit economy of scale in administering certain functions, and often they separate segments of the community that generate high public expenditures from areas where abundant taxable resources are located. And so on.

Partly in response to the mismatch of local needs and resources, state and federal governments have vastly expanded grants-in-aid to local governments in the past decade and a half. This has enabled many urban communities to keep their heads above the water but with serious effect on their self-governing status. The increasing flow of grant funds has magnified local dependence on fiscal decisions of the state and federal governments. In addition, the conditions attached to the use of the grants, particularly those made by the federal government, have increasingly circumscribed local decisionmaking authority.

This growth in intergovernmental fiscal transfers has reached the point where the nation faces the issue of whether, in the continuing process of adapting local government to the needs of the local constituency, it is time to look less to fiscal aid via intergovernmental grants and more to the politically more difficult approach of major alterations in the powers and jurisdictions of local government—major structural change at the local level. This is a key conclusion reached by the ACIR in a report on state and local assignments of functions approved at its September 26, 1980, meeting.¹

The Development of Local Government

The basic pattern of American local government traditionally consisted of municipalities, serving concentrations of populations within well-defined territorial limits, and counties, basically providing state services at the local level in both urban and rural areas. Towns in New England were something of a combination of municipalities and counties elsewhere, in that they consisted of subdivisions of counties but also provided services needed in concentrated population areas. Townships in the mid-western states, on the other hand, were largely subdivisions of counties for the provision of rural services at the local level.

The basic dichotomy of form in most states was between municipalities, serving urban concentrations within specific limits and organized on the initiative of the resident population, and counties, subdivisions of the state covering essentially the entire state and set up mainly to carry out state functions at the local level rather than to meet the specifically articulated needs of the local populace.

For a long time, municipalities met the problems of population and economic growth simply by expanding their area through annexations of adjacent unincorporated territory. This was how many of today's largest cities achieved their present sizes in the late 19th and early 20th centuries. Early free and easy annexation did not last long, however, as settlements adjacent to cities incorporated to defend themselves against absorption by the neighboring city, and state legislatures, in response to the pleas

¹ACIR, *State and Local Governmental Structure and the Assignment of Functions*, Washington, DC, U.S. Government Printing Office, forthcoming, 1981.

of the residents of unincorporated areas threatened with annexation, made it more difficult for cities to absorb unincorporated fringe territory through such requirements as concurrent majorities in the annexing city and the territory to be annexed in a referendum on the issue.

At the same time that cities were seeing their areal dimension constricted, they were faced with restrictions on their fiscal, functional, and structural powers. In 1868, Judge John F. Dillon enunciated his famous rule that a municipal corporation can exercise only those powers that are granted specifically, those that can be fairly implied in or are incident to those expressly granted, and those essential to the municipality's purposes. For some time, "Dillon's Rule" effectively throttled municipal efforts to expand their powers without specific legislative authorization, until the movement for constitutional home rule scored its first success in Missouri in 1875.

Even this effort fell short of its advocates' hopes, however, as the courts continued to apply the principles of the Dillon Rule. Thus, constitutions might authorize localities to frame and adopt charters, but, again, the extent of the powers that the locality could assume thereby was limited to what the legislature specifically permitted. In practically all cases, moreover, legislative authorization did not extend to allowing local jurisdictions to adopt nonproperty taxes and in many cases it served to limit the amount of property taxes they could levy.

During this developmental period of state-urban relations when cities' ability to alter their area and powers was effectively restrained, the needs of city residents became more numerous and complex. With industrialization, urbanization, the development of the automobile and other technological advances, people and production increasingly concentrated in urban areas. All these things brought new public problems which could not be attacked economically and efficiently within the boundaries of the historical jurisdictions. The appeal of the city as magnet for immigrants and low-income and minority populations brought with it the social problems which, in response to a growing public conscience, increasingly were taken on as a public responsibility. Partly in reaction to the influx of social and economic minorities, the more affluent moved away from the central cities, taking with them their taxable wealth and income and, as well, their civic leadership abilities. Boundaries being as rigidly fixed as they were, there was no possibility of the abandoned city's reaching out to make a claim on their fiscal resources or their citizenship responsibilities. Not only people, but some business and industry also moved beyond the city's boundaries, likewise dealing a blow to the city's economic base.

In the American system of pragmatic federalism, the dilemma of the cities was bound to excite a response among political decisionmakers at all three levels of government. The response was structural,

functional, and fiscal.

The fiscal measures consisted of states' authorization for municipalities to increase their property tax authority, levy nonproperty taxes, or adopt user charges to finance certain services. They also included substantial expansion of state aid and, especially beginning in the mid-1960s, an increase in the number and dollar amount of federal grants to cities. (See *Table 1*.)

The structural and functional measures consisted mostly of procedural and structural methods authorized by the state and, where necessary, taken on by local communities, to realign the functions and areal jurisdictions of the local communities. Among the procedural methods were intergovernmental service agreements, intergovernmental transfers of functions, and the use of extraterritorial powers. The structural adaptations included annexation, modernization and expanded use of county government, the special district, and various types of major reorganizations, such as the consolidated city-county, the two-tier county, and the multipurpose service district. *Figure 1* highlights many of these structural and jurisdictional changes.

Procedural and Structural Adaptations

Procedural Methods

Intergovernmental service agreements—voluntary agreements by two or more local governments to cooperate in provision of a service—were used by more than 60% of local governments in the early 1970s. Today they remain a popular method for responding to problems arising from the mismatch between jurisdictional boundaries and service needs. As of 1976, 43 states had some type of general law

Table 1

**Federal and State Aid to Local Government
Selected Years, 1955-79
(in millions)**

	Federal Aid (Direct)		State Aid	
	Amount	Percentage of own source revenues	Amount	Percentage of own source revenues
1955	\$ 368	2.5%	\$ 5,987	40.6%
1960	592	2.6	9,522	41.6
1965	1,155	3.6	14,010	43.3
1970	2,605	5.1	26,920	52.4
1975	10,906	12.9	51,068	60.5
1979 ¹	19,640	17.0	70,750	61.1

¹Partially estimated.

Source: ACIR, *Significant Features of Fiscal Federalism 1979-80 Edition*, M-123, Washington, DC, U.S. Government Printing Office, August 1980, Table 108.

Figure 1

Significant Governmental Reforms at the Substate Level 1945-80

17 successful city-county consolidations, 1947-80, including:

- Anaconda/Deer Lodge County, MT (1977)
- Anchorage/Greater Anchorage Area Borough, AK (1975)
- Lexington/Fayette County, KY (1974)
- Suffolk/Nansemond County, VA (1972)
- Columbus/Muscogee, GA (1970)
- Indianapolis/Marion County, IN (1969)
- Carson City/Ormsby County, NV (1969)
- Jacksonville/Duval County, FL (1967)
- Nashville/Davidson County, TN (1962)
- Baton Rouge/East Baton Rouge Parish, LA (1947)

Dade County, FL, metropolitan federation (1957)

Minnesota's Twin Cities Metropolitan Council (1967)

—an appointed regional council with policy responsibilities

Portland, OR, Metropolitan Service District (1968)

—an elected regional council with policy and operating responsibilities

671 multipurpose substate regional councils (1979) with planning and coordination responsibilities

County organization and home rule authority (1979)

21 states with county optional forms of government set forth in law

29 states with county home rule

75 counties with charters

766 counties with an elected or appointed chief executive—25% of all counties compared with less than 3% in 1960

1,039 of 3,319 cities surveyed had transferred functions to another jurisdiction in the period 1965-75

Source: Advisory Commission on Intergovernmental Relations staff compilations.

authorizing such agreements—one more than in 1972 and 29 more than in 1957.

From 1965-75, 31% of a sample of cities over 25,000 population transferred functions to another jurisdiction, with larger, central cities being more likely to transfer. Counties received 56% of the functions transferred, followed by special districts with 19%, and states with 14%.

Extraterritorial powers—the exercise of cities' authority outside their boundaries—are used less than intergovernmental service agreements or transfers of functions as means of adjusting their area and power. In 1977, 35 states authorized at least some of their cities to regulate outside their limits. Yet, less than

half the states authorized extraterritorial planning, zoning, and subdivision regulation—the powers that would have the most influence in dealing with fringe growth problems.

Structural Adaptations

Annexation. While no longer as useful a tool for cities as when they were not hemmed in by incorporated areas, annexation is still the most common structural modification and a basic method of expanding a municipality's servicing and financing reach. Except for certain cities, though, it has not been a practical device for achieving areawide provision of services that benefit from areawide administration and financing.

- From 1970 through 1977, over 48,000 annexations occurred, adding nearly 7,000 square miles and 2.5 million people to cities over 2,500 in population. But most annexations were small—the average land area was 1/7 of a square mile and the average population 52 people.
- In the 1970s, medium-sized cities annexed more frequently and were more likely to produce significant territorial expansion and population increases than cities of other sizes.
- While most annexations have occurred in the north central region, annexation has had the greatest impact on the south and southwest in terms of population and area added.
- The effect of annexation on central and suburban cities declined in the 1970s, in that the average land area and population acquired per annexation in the 1970s was less than the 1960s.
- While annexation usually produces small, incremental changes in city boundaries and population acquired, those cities (such as Houston and Oklahoma City) with significant annexations in land and population have been able to achieve better control over problems normally associated with benefit and cost spillovers such as environmental protection.

County Reform. A considerable part of the effort to alleviate the servicing-financing mismatch problems of cities involved increased reliance on two other types of local government: the county and the special district. Counties, of course, generally cover considerably more area than municipalities, and usually overlie municipalities. In some instances, also, as in the case of single-county metropolitan areas, their boundaries include enough territory to enable the county government to deal adequately with problems that spill over municipal boundaries, such as transportation and environmental protection. The counties' basic problem is that they originated as geographic subdivisions of the state for the purpose of providing state services at the local level. Congruent with that ministerial role, they typically were not given a broad array of functions, particularly of an urban character, nor the kind of modern government-

tal structure required to perform such functions. The emergence of the urban county evidences progress in overcoming many of these handicaps. Fully effective urban counties strive to match their geographic adequacy with functional, fiscal, and structural competence, so that they in effect can provide the type of services that cities provide within a more restricted territory.

While counties as a group have made significant strides as a local unit or urban government, not all states have bestowed adequate authority upon them. Even where they have, many counties have failed to take proper advantage of the authority. Moreover, most counties generally are limited fiscally by dependence on inflexible sources of revenue, mainly the property tax.

- Currently, 29 states have granted counties some type of home rule authority, compared to 25 in the early 1970s. Yet, many of these states place so many restrictions on implementing this authority that local discretion is weak or non-existent. In 19 states, the home rule authority includes the power to adopt a charter; currently only 75 counties out of 3,042 nationwide have adopted one.
- Twenty-one states authorized optional forms of county government, but relatively few counties have exercised the option.
- In the last two decades, the number of counties with elected chief executives has risen from eight to 253. Similarly, the number of appointed county administrators has grown from 75 in 1960 to 513 in 1979. Thus, the percentage of counties with the plural executive form of government dropped from 85% in the early 1970s to 73% in the late 1970s, indicating progress in this vital aspect of structural modernization.
- Functionally, many counties have taken on new responsibilities, usually of an urban character, sometimes in response to federal influences, as in the case of the community development block grant. The tendency, moreover, is to perform the function for the entire county—in incorporated as well as unincorporated areas. Metropolitan counties, of course, were more active than rural counties in taking on new functions as the percentage of such counties engaged in a service increased from 1971 to 1975 for 15 functions.

Special Districts. Just as the county increasingly offered a way to deal with problems that exceeded the authority and territorial scope of municipalities, so did the special district, but generally for single functions and on a territorial basis tailored to functional needs. Unlike many municipalities, special districts were not strapped by debt and tax limits, could resort to service or user charges for financing, and often had a broader tax base. In fact limits on some powers of municipalities led to the establishment of special districts, such as strict construction

“Unlike many municipalities, special districts were not strapped by debt and tax limits, could resort to service or user charges for financing, and often had a broader tax base.”

of powers granted to general purpose governments, lack of power for those governments to establish differential taxing areas within their boundaries, and lack of authority to contract with other local units or to undertake joint responsibility for providing services.

The extent to which the county and the special district have succeeded in taking some of the play away from municipalities in the provision of urban services emerges dramatically in an examination of their respective shares of local direct expenditures over the ten-year period 1967-77 as noted in *Table 2*. Though municipalities continued to be dominant in 1977, their position was not as strong as it had been ten years earlier. Counties are assuming more responsibility for funding higher education, hospitals, health, police, fire protection, sewerage, other sanitation, parks and recreation, corrections, and libraries. Special districts account for a significant part of the relative decline in the municipal position in direct expenditures for hospitals, fire protection, sewerage, and libraries.

Table 2

Distribution of Direct Expenditures Among Types of Local Government 1967-1972-1977

	Counties	Municipalities	Townships	School Districts	Special Districts
1967	18.2%	36.3%	3.4%	35.2%	6.7%
1972	19.6	36.5	3.4	33.0	7.2
1977	20.5	35.8	3.3	31.7	8.5

Source: U.S. Bureau of the Census, *Census of Governments*, Vol. 4, No. 5, *Compendium of Government Finances*, 1966-67, 1971-72, and 1967-77, Washington, DC, U.S. Government Printing Office, 1969, 1974 and 1979.

In fact, of the five types of local unit (counties, municipalities, townships, school districts, and special districts), special districts showed the most pronounced increase in number in the ten-year period, rising from 21,264 in 1967 to 25,962 in 1977—a jump of 22%. (See *Table 3*.)

Table 3

**Number of Local Units of Government, by Type
1967-1972-1977**

	1967	1972	1977	Percent Change
				1967-77
Counties	3,049	3,044	3,042	*
Municipalities	18,048	18,517	18,862	4.5%
Townships	17,105	16,991	16,822	- 1.7
School districts	21,782	15,781	15,174	-30.3
Special Districts	21,264	23,885	25,962	22.1
Total	81,248	78,218	79,862	- 1.7

*Less than 0.05%.

Source: U.S. Bureau of the Census, Census of Governments, Vol. 1, No. 1, *Governmental Organization*, Washington, DC, U.S. Government Printing Office, 1979, Table 4.

City-County Consolidations and Regional Governments. The recent procedural adjustments and structural modifications have afforded some help in dealing with servicing and financing problems at the local level, but their essentially ad hoc, piecemeal character falls short of what many consider the need for fundamental adjustments of local government area and power. Such adjustments need to incorporate an areawide dimension for coping with the functional and fiscal problems that spill over local jurisdictional boundaries. The county, outside single county regions, does not offer the necessary areal scope. Special districts despite their pragmatic appeal, threaten to erode the important coordinative role of general purpose governments. Realizing the shortcomings of these approaches, reformers sometimes have focused on new organizational forms—city-county consolidation, two- and three-tier federations, and multipurpose regional service districts. The record shows, however, that these forms have been relatively infrequently presented to state legislatures or local voters for approval, and in even rarer instances have they been adopted.

The most popular of these major reorganization approaches is the consolidated city-county. Twenty-four now exist with 17 having been formed since 1945. The number of referenda on consolidations has increased in each decade, but the percentage of successes has declined so that the 1970s produced the same number—seven—as the 1960s (one of these was created by the state legislature). Moreover, half the consolidations since 1968 have been in non-metropolitan areas. Only one city over 250,000 population has ever succeeded in consolidating with its surrounding county (Indianapolis) and that was through action of the state legislature.

The two-tier urban county form established in Dade County, FL, has never been adopted formally in any other area. Yet, in many counties the com-

bination of major structural reorganization and the assumption of functions transferred from municipalities have produced systems leaning toward the two-tier system.

The most dramatic development in the 1970s was the establishment in 1979 in the Portland, OR, area of the first elected regional government. The success of the new Metropolitan Services District, however, may be dependent on the establishment of a tax base adequate to giving it the financial capability of providing additional areawide services.

Fiscal Resources

An essential element of local power is the authority to raise money. Territorial limitations restrict this power as people and industry move outside a city's boundaries. Another limitation is the amount of revenue-raising authority bestowed by the state. The authority to determine revenue sources and their rates is jealously guarded by state legislatures and hence generally beyond any home rule grants of powers.

The property tax is traditionally the mainstay of the local revenue system. In 1977, 38 states had constitutional or statutory limitations (or both kinds) on the property taxing power of municipalities. Of the two other broad-based taxes, 28 states authorized some or all municipalities to levy a sales tax and 11 similarly authorized a municipal income tax. State statutes defined the base and rate of the taxes.

States also place restrictions on municipal authority to borrow money. In 1976, 44 states had constitutional or statutory limits on the amount of long term general obligation bonds that municipalities could sell, and in 43 the issuances of such debt required prior approval at a popular referendum. Finally, as of November 1979, seven states had enacted an explicit expenditure lid on municipalities.

In recent years, of course, the gap between urban needs and the ability of a city to finance those needs from local resources has been bridged to a substantial degree by grants-in-aid from the state and federal governments, and this has served to reduce the pressure for basic structural reform. Thus, in 1977, 38% of municipalities' general revenue was from the state and federal governments compared to 25% only ten years earlier. Moreover, their dependence on federal aid was growing faster than their dependence on state aid. In 1972, 22% of their intergovernmental aid came directly from the federal government; in 1977, this rose to 36.9%. The picture on total aid flows from the federal government, including both direct and indirect (via state pass-through) is similarly dramatic. Figures are not available for municipalities alone, but those for local governments in general are suggestive. They show that in 1972, 30% of local governments' intergovernmental aid came directly and indirectly from the federal government; by 1977, this figure had risen to 37.5%.

Over-Dependence on State, Federal Aid?

The constantly expanding fiscal reliance of local governments on intergovernmental aids raises questions about their liability as independent partners in the American tri-level system of federalism. There seems little dispute about the current state of their fiscal dependence. But are they destined to come increasingly under the influence of their two senior partners? The answer depends to a critical degree on the continuing ability and inclination of the federal and state governments to maintain or increase their aid flow to localities, and on their mandating of requirements—via grant-in-aid conditions and otherwise—on local governments. Views differ on the likely federal and state responses on these issues.

The Slowdown Position. Some observers see evidence of a real fiscal slowdown in the expansion of state and local fiscal systems and in federal aid programs. Aggregate state and local spending has lagged behind the nominal growth in gross national product since 1975, they note, indicating the transformation of the state and local sector from a fast growth to a no growth industry. Much of this trend they attribute to such fundamental changes as the basic shift in public opinion from support, or at least toleration, of fast growth to a demand for slower growth, as evidenced by many of the recent lids imposed on state and local spending; economic change, from that marked by significant real growth to that characterized by slow or no real growth and high rates of inflation; and demographic changes, whereby, for example, steadily rising school enrollments in the post World War II years have yielded to declining enrollments and resultant stabilized pressure on school expenditures.

These basic changes, they contend, have created an environment that is fairly hospitable to the adoption of conservative fiscal policies, so that the politics of fiscal expansion have given way to the politics of containment.

Local property tax restraints and state spending lids are cited as the most dramatic examples of the new brand of fiscal containment politics. Between 1970 and November 1979, states took 39 widely varied actions designed to make it more difficult for local authorities to raise property taxes. From 1975 to 1979, 14 states imposed lids on state spending and six imposed overall spending limitations on local government.

Other reflections of the politics of fiscal containment are cited:

- Since 1976, about two-thirds of the states virtually have declared a moratorium on raising their income and sales taxes, and in 1979, about half cut one or the other.
- Confronted with the tax revolt psychology manifested in California's Proposition 13 and its counterparts elsewhere, state legislatures in 1979 voted to use potential surpluses for tax relief rather than for program expansion and

“The constantly expanding fiscal reliance of local governments on intergovernmental aids raises questions about their viability as independent partners in the American tri-level system of federalism.”

contingencies.

- About half the states now require fiscal notes on all bills that would impose added expenditure responsibilities on local governments.
- Six states indexed their personal income taxes for inflation in 1978 and 1979.

Fiscal analysts offering this diagnosis see these fiscal containment policies continuing well into the decade of the 1980s, based on their assuming no significant change in the underlying causal factors. They also believe the fiscal behavior of the federal aid system will follow a similar path. After expanding rapidly from 1949-75, they point out, federal aid also has switched from the fast growth to the no real growth category. Furthermore, they doubt that there will be a sharp upsurge in federal aid flows, considering the shift in the federal fiscal condition from financial ease to fiscal stress. In support of that appraisal, they cite:

- increasing resistance to Congress' efforts to raise social security taxes to cover the broad expansion in social security benefits;
- the political demand for a major federal income tax cut, which will become increasingly strong as inflation pushes taxpayers into higher tax brackets;
- growing pressure to augment defense expenditures;
- the fear of double-digit inflation making it progressively more difficult to cover revenue deficiencies by deficit financing; and
- the federal government's assumption of responsibility for financing an increasing share of the programs with the fastest growth, such as health care for the elderly, the poor, and the near-poor.

Finally, those who hold this view believe that fiscal containment at the federal level will continue for a number of years, unless economic recovery is rapid and sustained and international tensions are suddenly relaxed, a combination of fortuitous events that they see as unlikely.

Spending As Usual. On the other side of this issue are those who accept many of the indicators of slowdown of state and federal programs but are not con-

vinced that the forces are so powerful or so unchallenged, particularly so far as the continuing expansion of the federal influence is concerned. Hence, they question whether the expenditure control psychology really is so strong at the federal level, citing the subsidence of the movement for a constitutional amendment requiring a balanced budget, and noting that the Administration's plan to emphasize budgetary restraint in submitting its 1981 budget for anti-inflationary reasons was soon abandoned when the 1980 recession took hold.

Supporting this skepticism about the federal fiscal slowdown is the view that the basic forces that have combined to generate expansion in federal programs in the past 10 to 15 years are as strong as ever, most particularly the entrepreneurial roles of Senators and Congressmen interacting with and often encouraged by the persisting pressures of interest groups. These skeptics acknowledge that the impact of additional federal programs on local discretion would be eased by the use of the more flexible aid instruments—General Revenue Sharing (GRS) and block grants—but note that GRS has increased only modestly in overall amount since its enactment in 1972 and indeed, relative to the cost of living, has declined substantially. They see little likelihood of increasing the number of block grants, and point out that those that do exist are gradually being made subject to more and more strings. Finally, they see no signs of an end to the continued addition of narrow categorical grants, and are unimpressed with the agonizing progress made in efforts to achieve grant consolidation, to say nothing of measures to ease the task of grant recipients by improved grants management.

As for action at the state level, these doubters of the "slowdown" diagnosis acknowledge the impact of state expenditure limits but also stress the effects of state governments' increased imposition of limits on local property taxation; their hesitancy to grant local tax diversification; their continued reliance on conditional grants rather than general support grants to their localities; and their continued heavy resort to direct order mandates on local governments, in most cases still without offsetting reimbursement for the costs of those mandates.

In short, these skeptics hold that while there are many hopeful signs of conditions leading to a lessening of pressure from the state and federal levels on local discretion, via increased fiscal aid and mandates, the signs are by no means unequivocal. There are too many imponderables to justify an attitude of certainty.

A Call For Structural Reform

Whatever the trend in intergovernmental fiscal transfers in the coming years, it is clear that at their present scale they already impinge on local discretionary authority. This should signal a need for increased attention to alternative ways of dealing with the mismatch between service needs and fiscal

resources that are the major reason for the expanded aid flows. This was the conclusion that the ACIR reached in its study of state and local government structure and the assignment of functions.

The Commission became convinced from its study that the primary reliance on aid programs for dealing with state and local fiscal dilemmas reveals a fundamental unawareness of the inextricable linkages among governmental finances, functions, structure and jurisdictional area and a concomitant tendency to avoid, for obvious political reasons, the pivotal structural and area issues, which after all are primary determinants of fiscal and servicing capacity. It recommended therefore, that

(1) policymakers and the public alike give balanced attention to the structural and areal traits of state and local governments when they focus on the fiscal and functional challenges confronting these governments—either separately or collectively;

(2) federal decisionmakers recognize that federal aid is no substitute for governmental reorganization, where needed, and cannot purchase it, even when deemed desirable; and

(3) federal policymakers weigh the implications of an aid system which with its conditions has strengthened agency autonomy within recipient subnational general governments, encouraged the proliferation of "paragovernments" within and around cities and counties, strengthened certain types of special districts and authorities, spawned an array of single function regional planning bodies above the county level, frequently ignored the differing fiscal/functional assignment patterns within the 50 systems, and generally weakened generalists (elected officials and their central management staff) and general governments, despite policies and management circulars geared to strengthening them.

It further encouraged states to give increasingly more even-handed attention to the many mismatches that have emerged at the substate level as a result of their avoidance generally of the local structural question. These mismatches are between local fiscal resources and locally assigned servicing roles, between the differing fiscal resources and servicing assignments of some localities and those of others, between the geography of local servicing challenges and the geography of existing local general governments, and between the growing number of intermunicipal and intercounty special districts and the traditional concept of public accountability. The states' responsibilities outlined in this recommendation are crucial thanks to their position as prime architect of the financial, functional, areal and organizational structures of their localities and as the prime recipients of federal aid and of many negative structural and organizational side effects of that aid.

Albert J. Richter is a senior analyst at the Advisory Commission on Intergovernmental Relations.

Substate Regionalism Matures Gradually

by Bruce D. McDowell

A wealth of new data shows that substate regionalism in the United States has matured substantially during the 1970s. Nevertheless, it remains the newest form of governmental activity in the nation, and is far from perfect. The Advisory Commission on Intergovernmental Relations has just completed a study which examines these trends and identifies some of the major problems still facing regional councils in both metropolitan and nonmetropolitan areas. The Commission urges the state and federal governments to take positive actions to accelerate the maturing process now underway. This article summarizes these current trends, problems, and proposed actions.

Substate Regions Make Progress

Substate regional organizations have carved out important roles for themselves and are becoming increasingly viable, useful, and accountable to the citizens they serve. Newly released data show that they now cover virtually the entire nation, are receiving substantial support from both Washington and the states, and are increasingly applying the one person, one vote principle. These major trends are examined below.

Coverage

Map 1 shows that most of the nation now is covered by substate regional councils which have been recognized (as of 1978) by the National Association of Regional Councils (NARC) as having (1) multijurisdictional local government representation on their governing bodies; (2) multipurpose or multifunctional work programs; (3) legal status to receive public funds; and (4) full time staff. According to the NARC count there are 671 such councils. Their virtually complete coverage of the nation—except for Hawaii, Alaska, and certain nonpopulous portions of the Rocky Mountain area—is up strikingly from the approximately 50% coverage a decade earlier.

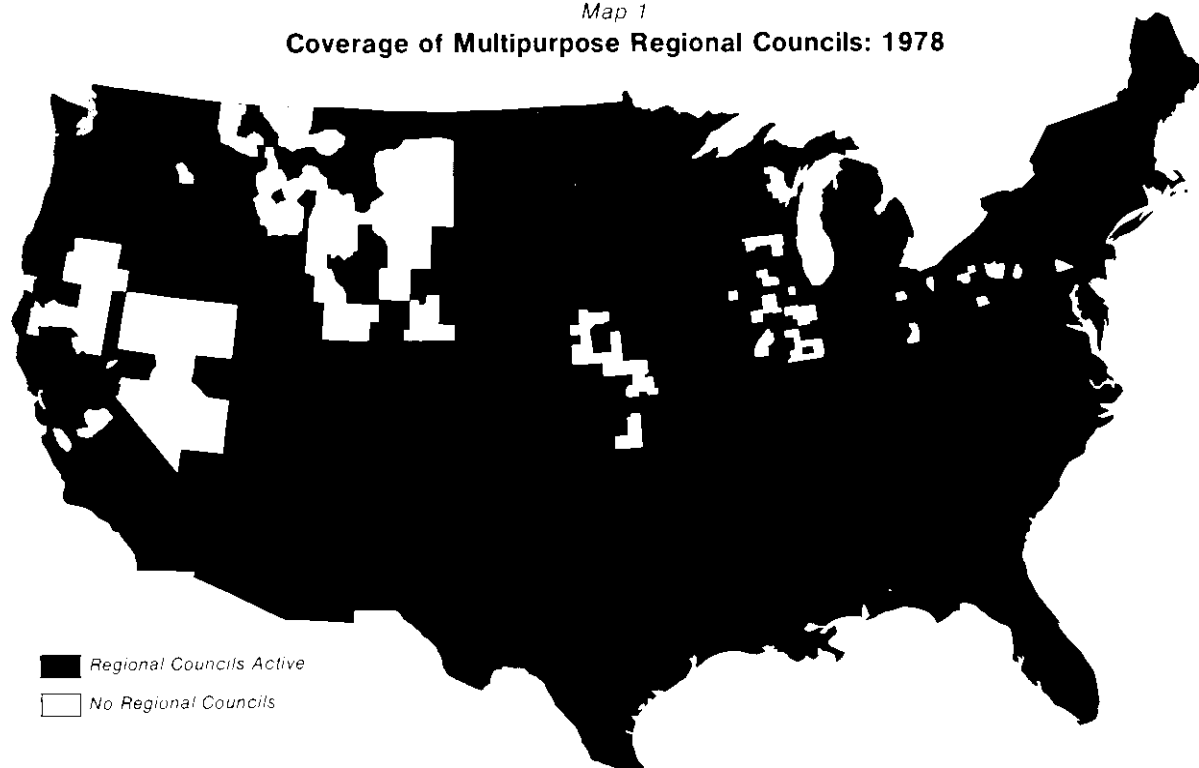
In addition to these multipurpose regional councils, there is an even larger number of substate regional organizations designed for special purposes. These are mostly community action agencies (serving the federal antipoverty program), the federally required health systems planning agencies, and area agencies on the aging commonly used to implement specific federal programs. Another 144 local government consortiums under the U.S. Department of Labor's Comprehensive Employment and Training Program also exist, but are not classified by the Bureau of the Census as independent regional organizations, nor are they under the umbrella of the multipurpose regional councils. Instead, they exist as advisory committees to the local governments involved.

Typically, there are several special purpose regional organizations in the same substate districts where regional councils ply their trade. Nationwide, according to the 1977 Census of Governments, there are almost two of these special purpose regional organizations for every general purpose regional council. This varies from state to state, however, ranging from no special purpose regional organization in South Dakota to well over four for each general purpose one in the state of New York.

Considering all of these substate regional organizations—the single purpose ones in addition to the multipurpose councils—the Census Bureau has determined that 99% of all the counties in the United States (including "county areas" in those states where counties do not exist as governments) are within the jurisdiction of one or more of these regional units. *Table 1* shows that these organizations

Map 1

Coverage of Multipurpose Regional Councils: 1978



SOURCE: National Association of Regional Councils.

NOTE: Hawaii has no regional councils and Alaska has only one.

number about 2,000, spend nearly \$1.3 billion, employ about 148,000 people, and involve over 43,000 people on their governing bodies.

Recommendations made by ACIR in the early 1970s would minimize the use of separate special purpose bodies, calling instead for heavy reliance on multipurpose councils which enhance political accountability and program coordination. According to the 1977 census, over 80% of the special purpose bodies are organized as private nonprofit corporations, and 62% of the members of their governing bodies are private citizens—the reverse of the 68% controlling interest of local officials governing the regional councils.

This article focuses upon the multipurpose regional councils and their governmental roles (including the review of the special purpose regions' projects), rather than upon the quasi-governmental special purpose organizations.

Regional Council Roles

Multipurpose regional councils are currently performing a variety of functions according to a recent survey by the National Association of Regional Councils, as listed in *Figure 1*.

The greatest involvement of regional councils is in some of the federally required programs, but at least eight other activities are underway in more than 100 regional councils. While planning is clearly the dominant function, various services to local governments also are frequently provided—especially

grantsmanship assistance and professional services of circuit riders in rural areas. Some regional councils also provide services directly to their communities—including the coordination of car and van pooling, the operation of transit systems, and the operation of solid waste disposal facilities.

Gauged by aggregate expenditures for the nation, the importance of activities in these general purpose regional councils ranks as follows: human resources (35%), economic and community development (16%), environment (16%), transportation (14%), land use and conservation (11%), and other (8%).

Expenditure patterns do differ, however, between metropolitan and nonmetropolitan regional councils. The budget of the average metropolitan council allots very similar percentages of its resources to each of the five major functions, while the average nonmetropolitan council's budget concentrates in only three categories. Generally speaking, the metropolitan councils give greater attention than their nonmetropolitan counterparts to the functions of transportation and environment, while the rural councils are concerned more with human resources, economic development, and conservation.

Federal Support for Regional Councils

Both multipurpose and special purpose substate regional organizations have come into being very largely in response to federal aid programs and their accompanying planning requirements. Understandably, then, the budgets of these organizations depend

Table 1

Substate Regional Activity in the United States: 1977

Activity Measure	Regional Organizations		
	Total	General Purpose	Special Purpose
Number of Organizations	1,932	675	1,257
Total Expenditures* (millions of dollars)	\$1,278.2	\$373.7	\$904.5
Total Number of Employees*	147,852	21,611	126,241
Number of Governing Board Members*	43,111	16,673	26,438

*Based upon 1,569 organizations responding to the survey, of which 607 were general purpose and 962 were special purpose.
Source: 1977 Census of Governments.

very greatly upon federal dollars. In aggregate terms, for the nation, the Census Bureau found that 87% of these organizations' revenues came from the federal government in 1977. For the multipurpose regional councils this figure was only 76%, while it jumped to 92% for the special purpose organizations. State funding was only 10% for the regional councils and 4% for the special units, while local funds provided about 12% for the regional councils and 2% for special bodies.

These national averages, however, are somewhat misleading. Metropolitan and nonmetropolitan regional councils with average sized budgets depend somewhat less upon federal funds. The federal share of these typical councils is a little under two-thirds, with the metropolitan councils relying more heavily on the local governments to make up the remainder, and the nonmetropolitan ones relying more on state funds.

A substantial share of the federal funds reach both types of councils through the states, and a small amount is channeled through the local governments. Nonmetropolitan councils receive about 10% more of their federal funds through the states than is the case for the metropolitan councils.

Considering the fact that most federal funds must be matched, these figures indicate a very high reliance of regional councils on federal revenues. A larger share of their budgets and work programs is directed by federal program requirements than would be indicated by the federal revenue share alone.

State Support for Regional Councils

Ideally, in the view of both the Advisory Commission on Intergovernmental Relations and the National Association of Regional Councils, the states should create a statewide system of multipurpose regional councils, direct that all areawide federal aid programs be carried out through them, provide the councils with a broad set of responsibilities and powers adequate to deal with emerging areawide

problems, supply a substantial amount of general support funds unfettered by specific program requirements, and establish direct links between regional planning and policymaking, on the one hand, and the state's own planning and budgeting processes, on the other.

In late 1978 and early 1979, the National Association of Regional Councils surveyed the states to determine the extent of state support for regional councils. Based upon returns from 43 states, the states have been ranked against this ACIR/NARC ideal outlined in the paragraph above. *Map 2* shows the results. Most states have taken some action in support of regional councils, but the degree of support varies widely. On the rough scale used, about half of the states scored better than 50%, while only nine scored better than 70%, and the top state (Georgia) reached only 80%.

State responsibilities for structuring and empowering governments below the state level are becoming more critical, in light of the fact that federal aid for areawide programs is beginning to decrease and is shifting increasingly toward narrow functional programs, and because local government tax limits are becoming more common and restrictive. State governments clearly will be looked to more often in the future to help substate regionalism mature.

From 1972 to 1979, the number of states offering general financial support to their regional councils increased from 20 to 27, and the aggregate amount increased from \$7.7 million to almost \$12.5 million. The actual amounts range from 70¢ per capita down to only 1¢. The average funding per regional council in these states runs from \$100,000 in Kentucky to \$4,769 in Nebraska. Sixty percent of the funds, however, are provided by only six states—Texas, Kentucky, Georgia, Virginia, Michigan, and Minnesota.

Representativeness of Regional Councils

Nearly two-thirds of all regional councils in the nation (as of 1977) reflected the one person, one vote

principle at some point in their representation and voting arrangements. This is up from only about one-half in 1972. Metropolitan councils recognize this population principle more often (66%) than do non-metropolitan ones (57%), and the largest metropolitan areas incorporate it even more frequently (70%). Councils in the mid-atlantic, midwest, and southwest use this principle more frequently than councils in other parts of the nation. While the courts have not yet applied this principle to regional councils, it could be logically concluded that courts would do so if regional councils take on substantial governmental roles beyond advisory planning.

Some Problems Remain

The maturing process for substate regional coun-

cils is, by no means, complete. They suffer from the lack of a stable financial base which they can allocate according to their own needs. They also suffer from the lack of an adequate legal base from which to operate confidently and effectively in their inter-governmental domains. And they too often fail to perform up to expectations as innovative problem solvers.

Inadequate Financial Base

The revenues of most regional councils continue to be dominated by federal grants, and these grants increasingly are becoming focused on narrow functional program goals. In the past decade, comprehensive planning funds have fallen from 38% to 20% of total federal planning assistance (which has re-

Figure 1

The Variety of Regional Council Activities¹

Federally Required Activities

Project Review and Comment (544)
 Comprehensive Planning (517)
 Criminal Justice (242)
 Economic Development (204)²
 Aging (198)
 Urban Transportation (145)
 Water Quality (229)
 Solid Waste (140)
 Air Quality (112)
 Local Development, Appalachian (66)
 Health Systems (72)
 Community Action (161)

Services to Local Governments

Grantsmanship Assistance (417)
 Professional Circuit Riders:
 Planners (112)
 Finance Budget Officer (61)
 City Manager (60)
 Legal Council (31)
 Engineer (26)
 Building Code Inspector (8)
 Codify Local Ordinances (77)
 Cooperative Purchasing (30)
 Centralized Accounting and
 Finance (17)
 Centralized Property Assessment
 Billing (6)

Independent Operations

Coordinate Car/Van Pooling (70)
 Operate a Transit System (18)
 Operate Solid Waste Facilities (6)

Other Activities (often federally assisted)

Housing (222)²
 Energy Conservation (104)
 Energy Impact (95)
 Coastal Zone Management (58)
 Rural Development, Sec. 111 (128)²
 Noise Control
 Historic Preservation (50)²
 Farmland Preservation (40)²
 Recreation and Open Space (92)²
 Employment and Training (138)
 Tourism
 Mental Health
 Alcoholism and Drug Abuse
 Nutrition
 Child Development/Day Care
 Social Services, Title XX (68)
 Youth Programs (51)
 Senior Volunteers (27)
 Arts (14)
 Regional Library Coordination
 Emergency Medical (73)
 Disaster Relief
 Fire Protection (13)²
 Coordinate 911 Program
 Rural Transportation (184)
 Airport Systems (92)
 Railroads
 Census Preparation (139)
 Surplus Property Disposition (46)

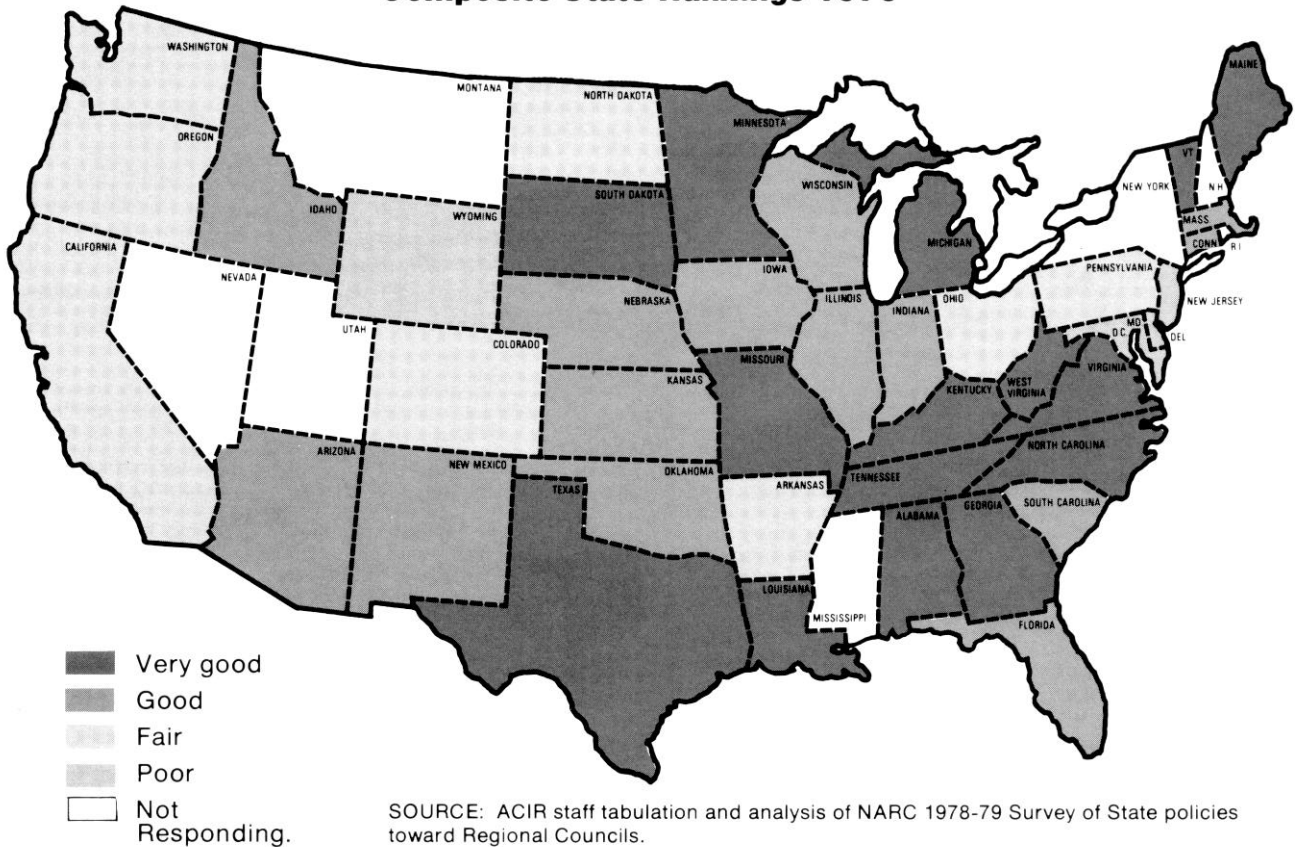
¹Number of regional councils involved is noted in parentheses () when available.

²Represents only those councils with heavy involvement.

Source: National Association of Regional Councils 1978 Survey.

Map 2

State Support Of Regional Councils: Composite State Rankings 1979



SOURCE: ACIR staff tabulation and analysis of NARC 1978-79 Survey of State policies toward Regional Councils.

mained stable at about 1% of all federal aid). General support funds from the states, while growing somewhat in the 1970s, remain a minor source. Local funds are contributed, in most cases, as strictly voluntary dues assessments, and local governments which increasingly face tax limitations are unlikely under present conditions to increase their share substantially. Federal grants—the major source of funds—continue to shift almost annually in amounts and purposes, causing compensatory realignments of regional council budgets.

What all this boils down to is that regional councils have relatively little discretion in working out their own goals and priorities except as these may be reflected in federal grant purposes. Continuity in work programming and staffing is quite difficult under these conditions.

Deficient Legal Base

Most regional councils continue to be organized voluntarily under state enabling legislation or inter-local agreements. Only 19 states have substate districting legislation providing for a statewide system of councils and recognizing them as an integral part

of the governmental system within the state, deserving of state recognition and support and expected to perform needed functions. Other states “make do” with a combination of federal aid regulations, recognized common interests among local governments, and gubernatorial executive orders (which in some cases have been modified substantially from one administration to the next). By and large the Governors have been much more involved with and supportive of regional councils than have the legislatures. This leaves the councils' legitimacy in doubt. Are they simply creatures of the Governor and some federal aid programs, or are they full partners in the state's governmental system? Under the present system, even such an essential regional council responsibility as the review of governmental projects having areawide significance is limited to those projects involving federal financing. Only 19 states have extended this authority beyond the federal programs. In this and many other matters, only the state legislatures can give the regional councils the kind of structure, responsibilities, authority, and financial support they need to be fully effective.

Performance Below Expectations

Inadequate performance may result from a combination of factors. Without a doubt, financing which is constantly shifting, federally dominated, and inadequate must carry some of the blame. Likewise deficient legal authority and inadequate state funding can be cited. But, in addition, the councils themselves must take some responsibility when they fail to provide good management and innovative work programs. Several special powers and procedures have been used on a limited scale to improve substate regional planning. The main ones are:

- The Twin Cities Metropolitan Council (Minneapolis-St. Paul) has become the effective policy body for a number of areawide special districts which administer airports, transit, parks, and water resources.
- The Twin Cities Metropolitan Council and also the Atlanta Regional Commission (Georgia) review local plans for their relationship to the metropolitan plan. In the Twin Cities, local planning is mandatory under state law, and the metropolitan council can return a local plan for further work if it does not conform with respect to matters of "metropolitan significance." The Atlanta review is advisory only.
- The Twin Cities Metropolitan Council also serves as a regional housing authority.
- The federal government provides a joint funding mechanism by which several different federal grants may be combined within a single work program to be administered by a single federal agency in accordance with an interagency agreement. The most frequent users of this technique have been substate regions. Yet, the cumbersome nature of this procedure has kept it from becoming generally used and Congress has allowed certain facilitating legal provisions to lapse—making it more difficult to achieve.
- The National Association of Regional Councils, in cooperation with a number of substate regions and federal agencies, has developed techniques for integrated regional programming. Somewhat analogous to capital improvement programming at the local government level, this program would seek to identify all federal, state, and local funds to be spent in the region for a variety of different functional purposes, and interrelate the projects to achieve best overall results. While difficult to conduct effectively, this process would produce results important for improving the A-95 review and comment process. A variation on this is the current experiment in negotiated investment strategies (NIS). Such strategies would be equivalent to the annual budget phase of a long range capital improvements program in local government, but at the regional level negotiations would have to be consummated among a large array of federal, state, and local officials, achieving firm com-

mitments for specific actions. The NIS process is being considered by regional councils in Minnesota.

- A process for regional council evaluation has been developed cooperatively by the National Association of Regional Councils and the State of Texas. It has been applied successfully in Kentucky, and is now being pursued in the State of Minnesota. The procedure involves (a) questionnaires and interviews administered throughout the region to both governmental and non-governmental interests, (b) an outside review team composed of experts in regionalism, and (c) a searching self-evaluation by the regional council staff and policy board, resulting in (d) a program of improvements for the organization's performance.

A recent survey by the National Association of Regional Councils shows that only 69 regional councils are using the regional programming idea, and that only 74 councils regularly undertake a performance evaluation of their organization.

Recent evaluations of the OMB Circular A-95 federal project review and comment process indicate that its full potential is far from being reached. While almost all regional councils are involved in this process, they frequently get bogged down simply in the logistics of notifying local governments of the project applications, causing them to neglect the substantive review of projects. Federal agencies too often take action without waiting for reviews to be completed and fail to explain actions which go contrary to regional council views.

Lost potentials such as these do little to improve the image of regional councils among those whose support they must have in the state legislatures and the Congress if they are to continue toward full maturity.

ACIR Urges Positive Action

At its meeting on September 26, 1980, the Advisory Commission on Intergovernmental Relations adopted six recommendations urging "continued support for and strengthening of substate regional organizations." Two are aimed at the state, while three address the federal government, and one is joint federal-state. Although they restate positions adopted by the Commission in 1973, the new recommendations are briefer, and are placed in contemporary terms to reemphasize key unmet needs revealed by an examination of the record of the 1970s.

State Action

Perhaps the most pressing need is for more substate districting legislation by the states. Fewer than half of the states with districting systems have relied upon deliberate state legislation to achieve a statewide system of regional councils. Most rely upon permissive legislation of one or more types, with the real motivation for the system coming from a gubernatorial executive order designed to help coordinate

numerous federal aid programs at the substate level. Most legislators have not consciously and constructively participated in this effort, choosing instead to simply "let it happen."

On the financial side, the fact that more than half of the districted states now make general support funding available to the regional councils is tempered by the realization that well over half of the money is concentrated in only six states. This indicates a lack of strong support for the substate districting concept by the legislatures.

It was deficiencies such as these that led ACIR to call upon state legislators to become more familiar with the activities of the regional councils in their state and to actually participate in council activities, urging them to become members of the council serving his or her own legislative district. This type of familiarity would help to show them the benefits of these organizations and build support for a stronger legislative base and more adequate state funding.

Federal Action

Federal support for substate regional councils remains as fragmented as it was in 1973 when ACIR first called for a unified federal policy. In fact, it may even be more fragmented in certain respects, and general support funds from the federal level definitely are becoming more scarce.

The Commission's present recommendations (a) renew the earlier call for a unified federal aid policy in this field, (b) emphasize the current critical need for more adequate funding for the large number of regional councils which also are A-95 clearinghouses, and (c) call upon the U.S. Office of Management and Budget, in the absence of any new federal legislation, to do as much as possible administratively to coordinate federally required areawide planning in multijurisdictional areas. The Intergovernmental Cooperation Act of 1968, under which OMB's Circular A-95 has been developed, offers greater potential for undergirding this administrative action than has been used up until now. Current efforts are underway in OMB to improve and strengthen this circular, and ACIR encourages that effort.

Joint Action

The Commission reemphasizes its earlier recommendation that the state and federal governments combine forces to develop joint federal-multistate compacts in interstate metropolitan areas. These areas are particularly troublesome from an organizational point of view, since no single state legislature has the power, by itself, to establish an adequate governmental organization there. State legislation creating statewide systems of regional councils should allow for compact bodies in interstate areas, and the federal government should take the initiative to bring the states together in those areas to establish such compacts.

Conclusion

While substate regionalism is maturing in many constructive ways, it needs active participation by all levels of government if it is to outgrow its present adolescence. Truly "adult" regional councils, able to stand on their own feet, secure their own revenues, and control their own work programs, are rare. This means, too often, that regional problems are going unsolved. The Commission continues to believe that regional councils are an essential part of the American system of government, and urges the states and the federal government to help guide them toward full maturity.

Bruce D. McDowell is a senior analyst at the Advisory Commission on Intergovernmental Relations.

Dallas County Commissioner Named to Advisory Commission

The newest member of the Advisory Commission on Intergovernmental Relations is Roy Orr, Dallas County (TX) Commissioner, appointed to ACIR by President Carter on September 17.

Commissioner Orr, currently serving as president of the National Association of Counties, has long been active in Dallas area local government. Prior to his election to the Dallas County Commission in 1972, he was a member, and later president, of the DeSoto School Board and Mayor of Desoto.

He is also chairman of the Texas County District Retirement System, former chairman of the Texas State Democratic Executive Committee, and past president of the North Central Texas Council of Governments.

ACIR Calls for State-Local Reform, Decides Topics for Future Research

At its meeting September 25-26, the Advisory Commission on Intergovernmental Relations adopted a series of recommendations to revamp and strengthen structural and functional processes of state and local governments and selected several topics for future research.

The Commission's recommendations in the state-local area followed an extensive reconsideration and evaluation of the states' role in the intergovernmental system, state relationships with their local governments and developments in local governmental servicing capacities and fiscal well-being. The three articles in this issue of *Perspective* are drawn from and highlight the findings of this research.

On the basis of its research findings, the Commission called on policymakers and the public to cease placing excessive reliance on intergovernmental grants as a substitute for local governmental restructuring. Specifically, it urged states to:

- require units of local governments every 10 years, or when three or more large special dis-

tricts have emerged in a region, to establish a representative area-wide commission to study the current structural, functional, and fiscal relationships of local governments and sub-state regions. If this commission recommends reforms, on petition of a representative number of citizens in the area involved, a referendum should be held on the proposals subject to approval by a simple concurrent majority.

- broaden local discretionary authority by amending state constitutions to grant general purpose local governments all powers not expressly reserved or preempted by the state legislatures.
- authorize and provide incentives for the modernization of county government, including an elected or appointed chief executive, authorization for county performance of municipal type functions and authorization for adequate fiscal resources and diversification of the county revenue base.

The Commission further said that states, through a local government boundary commission, other state agency, or the legislature, should seriously consider establishing or supplementing standards for local government viability. These standards might require any local government in an urbanized portion of an SMSA, general or special purpose, to have the equivalent of at least one full-time employee, or might require general purpose units to perform at least four functions, or only two functions, provided that each of the two constitutes at least 10% of the jurisdiction's current expenditure budget. If these standards are not met, after offering adequate hearings to the affected local government, the state should consider dissolution of the local government and provide for the transfer of the functions to another government.

It also called on states to:

- establish a sunset procedure whereby every state program is

reviewed periodically to determine whether its functions and subfunctions should be continued, terminated, transferred to political subdivisions, or expanded;

- adopt procedures under which the impact of proposed legislation on state-local assignment of functions would be part of fiscal notes attached to proposed legislation; and
- authorize consolidation of two or more municipalities, towns or townships when initiated by a resolution of the governing bodies of the city, town, or township affected or by petition of the citizens themselves, and approved by a referendum by simple concurrent majorities of the governments involved.

Although most of the recommendations were geared to states, one key recommendation calls for federal action. The Commission urged the Office of Management and Budget to develop and periodically update a classification of the 50 states based on the functional, fiscal, and legal similarities and differences among their various types of local government. This classification could be considered by the Congress and executive departments and agencies in designing eligibility provisions of grants-in-aid and determining which units of government are the preferred grant recipients.

In selecting future research topics, the Commission chose from a variety of timely and highly intergovernmental topics ranging from federal mandates and supersessive federal laws to local financial emergencies.

Based on recommendations by the Commission's Special Committee on Work Program and Budget and Staffing Levels, the Commission directed the staff to begin work on two major efforts. The taxation and finance staff will examine state taxation of natural resources and its interstate and interregional ramifications. The second research effort of the government structures and functions staff will be a followup to ACIR's research and recommenda-

tions on the federal role in the federal system and will include development of specific packages or approaches by which the federal government could assume full financial responsibility for certain functions, devolve others to state or local government or the private sector and consolidate other current federal aid programs.

The Commission staff will also prepare background materials describing the intergovernmental aspects and potential for research in the areas of nuclear energy, local jails, and health care. In each of these areas, the staff will come back to the Commission with full-scale proposals at its next meeting, January 15-16, 1981, in Washington, DC.

ACIR to Sponsor Series of Grant Management Roundtables

In the next year ACIR will sponsor a series of roundtables focusing on proposed Office of Management and Budget federal grants management policies emanating from OMB's report, *Managing Federal Assistance in the 1980s*. The two-fold purpose of these sessions will be to obtain comments from experts on the formulation and implementation of the policy proposals and to secure views of affected parties, especially those who might otherwise experience difficulty participating in the policy development process.

The first three roundtables are: November 20-21 in Washington, DC; December 16-17 in San Francisco, CA; and,

January 8-9 in Chicago, IL.

Each of these two-day sessions will examine policy proposals related to competition for federal assistance awards, dispute resolution for federal assistance, and national policy requirements that are generally applied to federal grants. The Washington, DC, session will focus on handicapped requirements to exemplify the larger national policy requirement issue. The San Francisco and Chicago meetings also will explore ways to resolve disagreements arising from the national policy requirement simplification process.

All roundtables will be open to the public. ACIR staff anticipates a wide range of participants including headquarters and regional federal administrators, state and local officials, public interest group staff, nonprofit group representatives, recipients, and university administrators.

Following the third session, ACIR staff will prepare an analysis of the information collected at the roundtables and will submit their findings to OMB, and to other groups and individuals where appropriate.

The meetings are open to the public on a space available basis. Questions, comments and statements may be submitted in advance to ACIR, 1111 20th St. NW, Washington, DC, 20575.

For additional information on the ACIR roundtables, please contact Elizabeth Bunn at (202) 653-5536.

ACIR Staff to Monitor, Provide Assistance on Regional Basis

Members of ACIR's Policy Implementation staff have assumed responsibility for various regions of the country—both to monitor intergovernmental activities in those areas and to provide assistance, where requested, to state and local officials interested in implementing ACIR's recommendations.

State and local officials and others in these regions are urged to contact appropriate ACIR staff for information and assistance.

Members of the staff and their regions are:

- Federal Region I. (CT, MA, ME, NH, RI, VT) Maurice White
- Federal Region II. (DE, NJ, NY) Maurice White
- Federal Region III. (MD, PA, VA, WV, DC) Stephanie Becker
- Federal Region IV. (AL, FL, GA, KY, MS, NC, SC, TN) Carol Weissert
- Federal Region V. (IL, IN, MI, MN, OH, WI) Michael Mitchell
- Federal Region VI. (AR, LA, NM, OK, TX) Jane Roberts
- Federal Region VII. (IA, KS, MO, NE) Michael Mitchell
- Federal Region VIII. (CO, MT, ND, SD, UT, WY) Jane Roberts
- Federal Region IX. (AZ, CA, HI, NV) Neal Cohen
- Federal Region X. (AL, ID, OR, WA) Neal Cohen

Federal Income Tax Rated Worst In Poll on Governments, Taxes

For the second year in a row, the federal income tax received the dubious honor of being the worst, or "least fair," tax in a nationwide poll sponsored by ACIR.

Some 36% of the 2,025 adults polled during May 1980 dubbed the federal income tax as the worst, said the Commission in *1980 Changing Public Attitudes and Taxes (S-9)*. The local property tax took a distant second place with 25% rating it the worst. These figures are in sharp contrast with results the first time this question was asked, in March 1972, when 19% chose the federal income tax and 45% the local property tax as "the worst" tax.

Perhaps of most significance was the finding that the federal income tax is progressively losing the support of the lower-middle income class (\$10,000 to \$14,999). It was chosen as the worst tax by 26% of this group in 1978, by 36% in 1979, and by 47% in the latest poll.

Interestingly, the federal government also rates a first place in responses to a more positive question: From which level of government do you feel you get the most for your money? Thirty-three percent of the respondents rated the federal government as top, compared to 26% for local, and 22% for states. Only last year, the federal government fell below local governments in this "moneyworth" rating for the first time in ACIR's polling history.

And Briefly: Books

In the 1976 renewal of General Revenue Sharing, the Congress asked ACIR to "study and evaluate the American federal fiscal system in terms of the allocation and coordination of public resources among federal, state, and local government."

In response, the Commission prepared 11 volumes which analyze the nature of the federal role in the federal system and make recommendations for improvement. Four of the expected 11 volumes in the series titled, **The Federal Role in the Federal System: The Dynamics of Growth**, are available. They are:

A Crisis of Confidence and Competence (A-77).

This publication is a quantitative analysis of the scope and character of the federal government's growth and provides an overview for the remaining volumes.

Public Assistance: The Growth of a Federal Function (A-79).

This report discusses the growth of the federal role in public assistance in such programs as Social Security, Aid to Families with Dependent Children, and Food Stamps. The trend toward centralization of welfare services progressed slowly as people's attitude toward poverty and its causes changed and the burden of public assistance grew. The report discusses how each of these programs has developed over the years.

Federal Involvement in Libraries (A-84).

The federal involvement in libraries is traced in this report beginning in the 1950s. Although public library service is still primarily an activity of local government, the federal role has increased. However, since library services continue to be viewed as primarily a state and local responsibility, major federal commitment is unlikely.

The Federal Role in Local Fire Protection (A-85).

In 1960, the entire federal role in fire protection consisted of small-scale cooperative agreements between the U.S. Forest Service and

state agencies. Today, in addition to General Revenue Sharing which is sometimes used to support fire services, 52 grant-in-aid programs handled by 24 separate administrative units are available to subnational governments. Thus, this report concludes, while the national government has not taken over the provision of local fire services, nor is it likely to, its participation in decisions concerning local fire service delivery is on the rise.

Significant Features of Fiscal Federalism 1979-1980 Edition (M-123).

ACIR's latest edition of **Significant Features** contains a wealth of information about federal, state, and local taxing and spending, both historically and currently. Much of the material is presented on a state-by-state basis. Included are historical expenditure trends, specific state and state-local spending for fiscal year 1977-78, tax burdens, and a variety of information about revenues, including a summary of state-local fiscal systems; adoptions, rates, and bases of major state and local taxes; federal aid to state and local governments and state aid to local governments; public employment and earnings; and government debt.

The States and Distressed Communities: The 1980 Annual Report (Prepublication copy).

The report, compiled by ACIR and the National Academy of Public Administration (NAPA), reviews the progress the states are making in assisting distressed local governments in five policy areas: housing, economic development, community development, fiscal reforms, and local self-help programs. It is the initial volume of a four-year study conducted for the U.S. Department of Housing and Urban Development by staff of ACIR and NAPA.

Recent Trends in Federal and State Aid to Local Government (M-118).

This report analyzes recent trends in the flow of federal and state aid to local governments with special attention to direct federal and pass-through funds. The report is in two parts. The first deals with overall

national trends; the second deals with a state-by-state analysis.

Regional Growth: Historic Perspective (A-74).

The first of a three-volume series on regional economic growth, the report describes historic trends in regional economic activity and documents a convergence of regional disparities over time.

Regional Growth: Flows of Federal Funds, 1952-76 (A-75).

The second volume in the series on regional growth discusses the narrowing of differences in the ratio of federal government expenditures to revenues in both interstate and interregional comparisons.

Changing Public Attitudes on Government and Taxes (S-9).

This is the ninth annual survey of public attitudes on major intergovernmental fiscal issues. Results of this year's poll conducted by Opinion Research Corporation are organized in tables with explanatory notes. The results of previous polls are presented in appendix tables.

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

1980 President's National Urban Policy Report, U.S. Department of Housing and Urban Development, U.S. Government Printing Office, Washington, DC 20402.

Housing: Federal Policies and Programs, by John C. Weicher, American Enterprise Institute, 1150 17th Street, N.W., Washington, DC 20036. \$6.25 paper.

Strengthening Cash Management in the Federal Government: Achievements and Initiatives, U.S. Office of Management and Budget, U.S. Government Printing Office, Washington, DC 20402.

Revolt of the Haves: Taxpayer Revolts and the Politics of Austerity, by Robert Kuttner, Simon and Schuster, 1230 Avenue of the Americas, New York, NY 10020.

Indexing the Individual Income Tax for Inflation, U.S. Congressional Budget Office, U.S. Gov-

ernment Printing Office, Washington, DC 20402.

Who Pays State and Local Taxes?, by Donald Phares, Oelgeschlager, Gunn and Hain, Inc., Cambridge, MA.

Issues in Revenue Sharing, Academy for Contemporary Problems, 1501 Neil Avenue, Columbus, OH 43201. \$3.

Business Regulation and Government Decision-Making, by A. Lee Fritschler and Bernard H. Ross, Winthrop Publishers, Inc., 17 Dunster St., Cambridge, MA 02138.

Financing Government in a Federal System, The Brookings Institution, 1775 Massachusetts Ave. N.W., Washington, DC 20036. \$5.95 paper.

The Economics of Taxation, edited by Henry J. Aaron and Michael J. Boskin, The Brookings Institution, 1775 Massachusetts Ave. N.W., Washington, DC 20036. \$6.95 paper.

Tax and Expenditure Limitation Referenda: An Analysis of Public Opinion, Voting Behavior and Campaigns in Four States, by Robert Palaich, James Kloss, and Mary Frase Williams, Education Commission of the States, Suite 300, 1860 Lincoln St., Denver, CO 80295. \$1.

State Income Taxation, by Clara Penniman, Johns Hopkins University Press, Baltimore, MD 21218. \$22.50.

Public Employment and State and Local Government Finance, edited by Roy W. Bahl, Jesse Burkhead, and Bernard Jump, Jr., Ballinger Publishing Company, 17 Dunster St., Harvard Square, Cambridge, MA 02138. \$25.

Municipal Bonds: The Comprehensive Review of Tax-Exempt Securities and Public Finance, by Robert Lamb and Stephen P. Rappaport, McGraw-Hill, 1221 Avenue of the Americas, New York, NY 10020. \$14.95.

Residential Mobility and Public Policy, edited by W.A.V. Clark and Eric G. Moore, Vol. 19 of Urban Affairs Annual Reviews, Sage Publications Inc., 275 South Beverly Drive, Beverly Hills, CA 90212.

The End of A Fiscal Era—Uncle Sam Loses His Trump Cards

In retrospect, the 1954-79 period may well go down in history as the golden fiscal era for the federal government. It was a period in which the federal government could repeatedly cut personal income taxes while more than doubling its real presence on the domestic expenditure front. During this 25-year period, federal outlays for domestic programs (including aid to states and localities) rose from about 6% to 15% of Gross National Product.

This remarkable federal growth performance takes on added significance when it is recalled that state and local expenditures from own funds rose far more modestly—from 7 to 10% of GNP—despite the fact that they did a very brisk business in new and used taxes. Moreover, in striking contrast to the relatively tranquil federal experience, the road to stronger state and local revenue systems was paved with the political bones of many state and local policymakers. No wonder the demand for federal revenue sharing!

These facts raise a nice question—why did the federal government move so much farther, faster, and more safely than did the states and the localities into the domestic public sector—an area that historically had been of primary concern to state and local policymakers?

The answer—federal policymakers held several fiscal trump cards which enabled them to expand rapidly in the domestic public sector at little political risk. A fiscal trump can be defined as one that helps policymakers (a) expand programs while cutting taxes, (b) pay for expanded program benefits with tax hikes that meet with little public opposition, or (c) co-opt the resources of another level of government. In addition, they could finesse revenue shortfalls with deficit financing.

The Income Tax Trump Card

The federal government came out of the Korean War with a massive income tax system—the most powerful revenue instrument ever created

in the history of mankind. It had been forged largely over the previous two decades, first to finance the New Deal programs and then expanded greatly to help underwrite World War II, Cold War, and Korean War commitments.

During most of the 1955-79 period, the interaction of economic growth and inflation against the progressive personal income tax structure produced sufficient additional revenue to help finance repeated tax cuts and expand domestic programs at the same time.

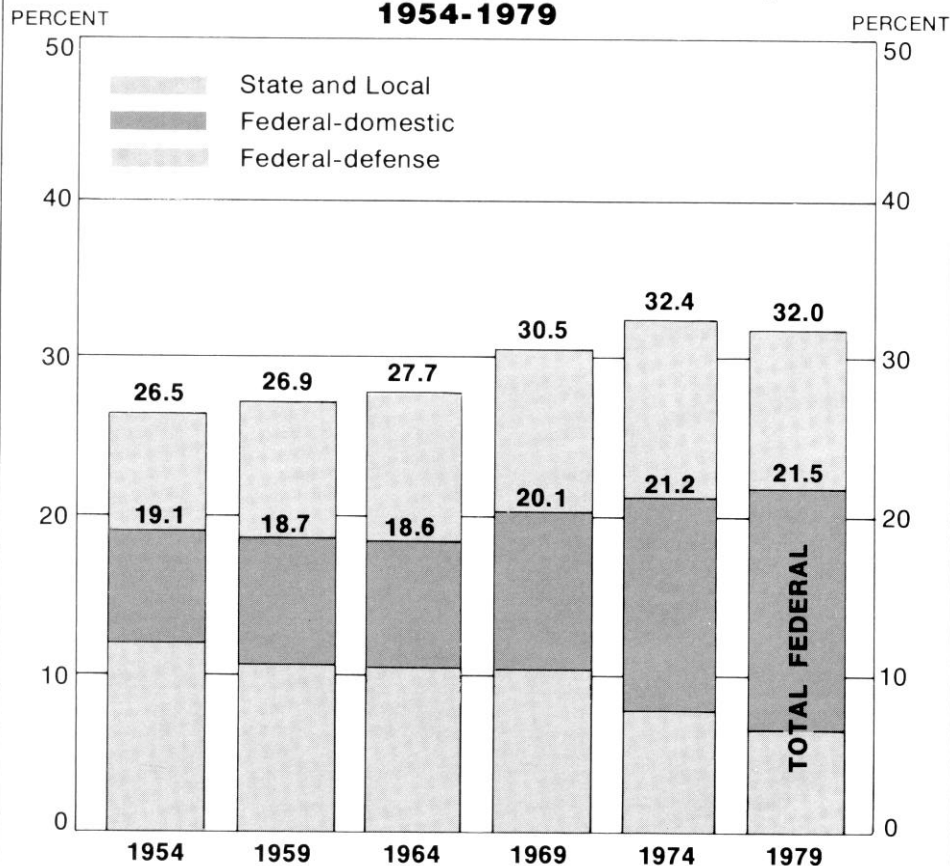
While federal policymakers still hold a valuable income tax card, it can no longer be played with the same flourish that characterized its play in the 1960s and early 1970s. There is clear evidence of growing public opposition to the income tax—a development that can be traced in part to the fact that “taxflation” has automatically pushed taxpayers into higher marginal tax rates. This inflationary wind may ultimately be taken out of the income tax sails through indexation. There is also growing agreement that the income tax must be pruned to help a sluggish private economy enhance its productivity and thereby compete more effectively in the world market.

The Defense Trump Card

The United States also came out of Korea with heavy defense commitments: it spent almost twice as many dollars for defense-related functions as did all state and local governments for all their programs combined. Since that time, there has been a steady decline in real defense outlays—they fell from approximately 13% of GNP in 1954 to about 6.5% of GNP in 1979. Part of this drop in real defense spending was used to finance tax cuts and part to underwrite the shift from defense to nondefense spending.

Now federal policymakers can no longer play the defense card because there is growing recognition that the U.S. “underinvested” in defense during the 1970s. It now appears fairly certain that the generals will be claiming an increasing-

Government Expenditure from Own Funds as a Percent of Gross National Product, 1954-1979



SOURCE: ACIR, *Significant Features*, 1979-80 and staff computations.

the political pain caused by tax hikes or expenditure cutbacks. In 19 of the last 20 years, Congress spent more than it collected—these deficits total about \$400 billion.

Now, confronted with chronic inflation of major proportions, the deficit finesse can no longer be worked with the same ease of earlier years. The business community, and especially foreign investors, regard perennial deficits as convincing evidence of poor fiscal discipline and a major contributor to inflation—the nation's number one domestic problem.

Prognosis

The federal government appears to be entering a period of sustained fiscal stress. Once again, to use the card game analogy, federal policymakers are being forced to make higher and higher expenditure bids with fewer top revenue cards. To make the situation more binding, it is also becoming increasingly difficult to finesse these revenue shortfalls with heavy deficit financing.

Conceivably, Uncle Sam's fiscal fortunes could rebound fairly quickly, but this would take an extraordinary luck of the draw—a dramatic reduction in international tensions, a rapid and sustained economic recovery, a sharp drop in energy prices, the enactment of a "popular" new federal tax, and/or renewed public toleration of heavy deficits.

More likely it will be the policymakers in the energy rich states who will hold most of the fiscal trump cards in the 1980s. Enriched by taxes on energy production, these jurisdictions may be able both to cut taxes for the home folks and expand their expenditure programs. The citizenry of Alaska will probably reap the greatest benefits; they are about to experience the pure joys of fiscal nirvana—an earthly state where public authorities abolish most state taxes, expand services, declare dividends, and accumulate huge reserves as protection against the day when they can no longer play the oil tax card.

John Shannon

by larger share of the federal budget for the next several years.

The Social Security Trump Card

Until recently, the Congress repeatedly increased social security benefits and then raised social security tax rates to finance the broadened coverage. These repeated social security tax hikes met with very little public opposition, probably because most of the public viewed them as higher premiums needed to pay for better social insurance protection.

Now due to the recent and sharp increase in public opposition to higher social security taxes (and their contribution to high total tax loads) there are no more easy votes in the Congress for social security tax hikes. In all likelihood, general tax revenue will have to be siphoned off to help meet steadily growing social security obligations thereby intensifying the financial crunch.

The Federal Aid Trump Card

Massive federal penetration in the domestic field can also be attributed to a fourth trump card—federal aid to states and localities. By means of conditional matching grants, the

Congress developed a facile method for co-opting state and local policymakers and their resources. As a result, the federal aid system grew prodigiously from about 100 programs amounting to \$3 billion in 1954 to approximately 500 programs distributing more than \$80 billion by 1979—with over a thousand "strings" attached.

Critics now contend that the Congress has badly overplayed its federal aid card. Instead of bringing clear-cut federal control, it has resulted in a mishmash of federal-state-local authority with a resultant loss of efficiency, accountability, and public confidence. While basic reform of the federal aid system is uncertain, there is growing evidence to suggest that the Congress will be forced to slow down the growth in federal aid flows as one way to help meet the expansion of defense and social security commitments and the strident demand for tax cuts.

The Deficit Finesse

During this 1954-79 period, federal policymakers could also cover their revenue shortfalls with deficit financing thereby avoiding

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