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Intergovernmental

PERSPECTIVE



from
Washington
to states and
localities:
decentralization
via block
grants and
revenue
turnbacks

View From The Commission



This View from the Commission highlights opening remarks of Representative L. H. Fountain in introducing hearings held by the Subcommittee on Intergovernmental Relations and Human Resources on "Current Condition of American Federalism," on April 7, 1981. Representative Fountain chairs that subcommittee.

The subcommittee begins an important series of hearings this morning on the Current Condition of American Federalism. These hearings are especially timely in view of the public perception that government spending is out of control and, also, the President's proposals for cutting the budget. One of the subcommittee's principal objectives in these hearings is to evaluate the recent report of the Advisory Commission on Intergovernmental Relations on the Federal Role in the Federal System. Basically the Commission found that intergovernmental relations, over the past 20 years, "have become more pervasive, more intrusive, more unmanageable, more ineffective, more costly and above all, more unaccountable." ACIR then concluded that the tendency to "intergovernmentalize" practically all domestic problems has impeded equity, administrative effectiveness, economic efficiency, and political as well as administrative accountability.

The tremendous growth of federal aid and regulatory programs, which prompted ACIR's concern, is strikingly evident from a comparison of the federal government's fiscal relationship with state and local governments in 1960 and today. There

were approximately 132 federal grant programs costing \$7 billion in 1960. By 1980, the number of grant programs had increased to almost 500 at a cost of more than \$91 billion.

Federal grants today underwrite more than one-fourth of all state and local expenditures, up from 10% in 1955 and less than 15% in 1960. In terms of employment, federal aid has resulted in a massive increase in the number of employees at the local level, where most grant-related services are delivered, while the federal civilian workforce has increased relatively little during the past quarter century. Clearly, the financing of public services in the United States has become increasingly centralized.

In preparing for these hearings, I reviewed this committee's August 1958 report on federal grants-in-aid. Incidentally, that same report (House Report 85-2533) first recommended creation of the Advisory Commission on Intergovernmental Relations.

It is amazing, in retrospect, to find that all of the federal government's grant programs in 1957 could be listed on a single page! There were only 36 programs in 1957—44 counting individual categories of the public assistance and public health services programs. Moreover, four of the grant programs accounted for 75% of all grant expenditures, which totaled less than \$4 billion.

It is interesting to note, also, the great concern voiced in the late 1950s, that the federal system had become overcentralized. In this context, the Joint Federal-State Action Committee was set up in 1957 by President Eisenhower and the National Governors' Conference for the express purpose of designating grant-aided functions which the

states were ready and willing to assume and the revenue adjustments necessary to enable the states to finance those functions. Unfortunately, that effort failed because it was found impractical to exchange a specific tax source for specific grants without adversely affecting low income states.

Now, nearly 25 years later, there is a similar but far greater concern for decongesting the federal system by reassigning functions between the levels of government—and with good reason.

The question before us, therefore, is whether and how this objective can be accomplished.

The distinguished witnesses invited to participate in these hearings have been asked to comment on a number of practical questions in this connection. These include the feasibility of applying ACIR's criteria for identifying appropriate national responsibilities, whether the changes and reforms in state government over the past 20 years provide a basis for federal withdrawal from certain policy areas, and whether sufficient information is now available to pursue the necessary actions for improving the functioning of our federal system.

I believe it will become evident, as we proceed with these hearings, that criteria for allocating functions are not enough—that the federal government also needs fiscal restraints if we are to avoid the over-concentration of power in Washington. Having said that, however, I want to endorse the view expressed by the Kestnbaum Commission in 1955, that we need "a set of principles to assist in deciding what the national government ought and ought not to do as a matter of policy." Hopefully, these hearings will help produce such principles or standards.

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Intergovernmental Focus

Activity on IGR Issues Abounds In Congress and White House

Although budget cuts have dominated much of the news emanating from Washington in the early months of 1981, there has been considerable activity in other areas directly affecting intergovernmental relationships in both the White House and the Congress.

The White House Plan for Devolution

President Reagan's proposal to drastically streamline and simplify the federal grant-in-aid system is really a two-phase plan. In the first phase, the Administration wants to consolidate about 130 existing categorical programs into 15 new block grants. While the block grant proposals put forward to date differ somewhat from each other, they all share certain characteristics. When compared to the categoricals they replace, all the proposals strive to make intergovernmental assistance more flexible, relatively unencumbered by regulation, but at reduced funding levels.

Relief from many of the most burdensome and costly federal mandates, regulations, and reporting requirements has been promised to state and local officials, hopefully enabling them to stretch fewer dollars further. Federal departments and agencies, under the **Paperwork Reduction Act** and coordinated by the President's Task Force on Regulatory Relief, have begun the process of reviewing administrative and, possibly, legislative ways to reduce the regulatory burden on states and localities.

Another first-phase step is the elimination of about 95 other categorical programs currently designed to aid state and local governments. If all of the Administration's block grant and grant elimination proposals are enacted by Congress, there will be some 200 fewer intergovernmental grant programs. In 1978, the latest year for which the ACIR tabulated the number of grants to state and local governments, 492 programs

were authorized and funded. That number is probably now over 600.

The second phase of President Reagan's plan to reform federalism was expressed before officials of the National Association of Counties. As reported in *The Washington Post*, the President said: "I have a dream of my own. I think block grants are only the intermediate steps. I dream of a day when the federal government can substitute for those, the turning back to local and state governments of the tax sources that we ourselves had preempted here at the federal level, so that you would have the resources."

President Forms Task Force, Committee on Federalism

The President's plan to decentralize the federal system will soon become the primary concern of two new advisory bodies. On April 8, the White House announced the formation of the Presidential Federalism Advisory Committee. Although the announcement received scant attention in the national press, Neal Peirce, noted journalist in the field of intergovernmental relations, called them "the highest level effort in U.S. history to address reform of the federal system. . . . Not only is the issue worth reporting on; it may be one of the most consequential of our time."

Sen. Paul Laxalt (NV), will head both the Task Force and Committee. The Task Force's membership, in addition to Sen. Laxalt, includes such top White House aides as Chief of Staff James Baker, Edwin Meese, Martin Anderson, and Robert Carlson, as well as Intergovernmental Relations Assistant Richard Williamson. Five cabinet officers and OMB Director David Stockman were also appointed.

The Federalism Advisory Committee includes, in addition to Task Force members, 40 representatives drawn from Congress, public life, and the state and local levels of government. The

Committee is charged with providing the President with information on the effects of federal policies on states and localities, with advising the Administration in implementing its federalism proposals, and with developing long-term policies to reverse the centralization of program control by Washington.

Congress is also moving to bring federalism issues to the fore. Sen. William Roth (DE) introduced and began a series of hearings on S. 10, a bill to establish a Commission on More Effective Government. Companion legislation, H.R. 18, was introduced in the House by Rep. Richard Bolling (MO). The Commission would have a two-fold mission: one, to examine the federal government and find ways to improve its organization and operations; and, two, to study the federal system and recommend ways to improve relationships among the three levels of government—federal, state, and local.

As set forth in both the Senate and House measures, the Commission would have 18 members. The President, the Speaker of the House, and the Majority Leader of the Senate would each appoint six members. ACIR supports the Commission's creation but strongly urges that the Commission's membership include state and local officials.

Grant Reform—An Interim and Long Term Intergovernmental Need

The Reagan Administration's plan for economic recovery is expected to require about 60 pieces of legislation, many involving federal aid to states and localities. While Congress considers and shapes the necessary bills to accomplish the President's federalism proposals, and until we reach the point where revenue sources can be turned back to other levels of government, states and localities may be in for an awkward and difficult period. As the Fiscal Note on page 26 of this *Perspective*

illustrates, federal aid to states and localities will probably decline sharply in the near future while legislative action on proposals to provide recipients with cost-saving flexibility in the use of federal funds will undoubtedly take longer.

Concern about the potentially disruptive effect on states and localities prompted Sen. Roth, Chairman of the Senate Governmental Affairs Committee, to ask the National Academy of Public Administration to help him find ways to ease the impact of federal aid cuts. Emergency "safety valve" legislation to allow for the transferability of funds among related programs was one of the National Academy's recommendations. Specifically, the Academy asked Congress to act swiftly on the "Federal Assistance Improvement Act of 1981," (S.807) an ACIR-backed bill to reform grant administration and provide short and longer term solutions to grant-related problems. On May 21, S.807 was reported out by the Senate Governmental Affairs Committee with floor action expected in mid-July.

S. 807, sponsored by Chairman Roth, contains six titles. Title I encourages the consolidation of related federal grant programs. Title II improves federal audit procedures of grants to states and localities. Title III streamlines and simplifies generally applicable national policy requirements attached to most federal assistance programs. Title IV strengthens the joint funding process which allows recipients to package and coordinate grants from more than one federal department or agency. Title V enables recipients to shift grant funds between specific categories of functionally related grant programs. Title VI implements several other improvements to grants administration.

Hearings held by the Senate Subcommittee on Intergovernmental Relations on March 11 and 25 of this year revealed how S. 807 differs from

past grant reform proposals and from S. 45, a grant reform measure introduced by the Subcommittee's ranking minority member, Sen. James Sasser (TN). Significant changes incorporated in S. 807 include:

- Under Title I, grant consolidation, an automatic discharge provision stipulates that if a committee of primary jurisdiction does not act on a grant consolidation proposal within 60 legislative days, the bill is automatically promoted to the next step in the legislative process. In the words of Sen. Roth, the strengthened title is necessary because "In effect, the Title would force Congress to fish or cut bait when it comes to grant consolidation."
- Title V has an integrated program plan procedure to allow recipients to transfer up to 20% of funds from one program to another among the various programs covered by an integrated plan. And,
- Certification procedures would be tested and evaluated under Title III. Under these procedures, states and localities that have laws, regulations, directives, standards, reporting requirements, and compliance, monitoring and enforcement procedures that are at least equal to national policy assistance standards would be able to certify that they had met federal requirements.

Sponsors and supporters of S. 807 believe that the measure will enable the Reagan Administration to expedite grant consolidation proposals and allow recipients greater flexibility in the use of some federal funds until block grants can be passed. Further, it permits the President more latitude in the application of very costly or potentially disruptive national policy requirements until longer term regulatory relief can be

obtained. As this *Perspective* went to press, companion legislation has not yet been introduced in the House.

The Senate Governmental Affairs Committee has also reported another intergovernmental reform measure, S. 43, calling for federal fiscal notes estimating costs proposed legislation would impose on states and localities. Companion legislation, H.R. 1465, is pending in the House Rules Committee.

Public Interest Group Response: Cautiously Favorable

Suprisingly, perhaps, the public interest groups representing state and local elected officials, which fought hard to create and preserve the federal aid system in years past, now generally agree that the days of federal largesse are over. Governors, state legislators, mayors, and county and other local officials all urge, however, that budgetary cuts must go hand in hand with reform. They fear the "worst possible federal aid scenario" of fewer and fewer dollars still entrapped in narrowly defined and heavily regulated programs.

The desire for a more flexible, simpler grant-in-aid system is central to the policy statements of the public interest groups. When it comes to specifics, it has become clear that 1981 will probably be remembered as the year when you "pick your fights" carefully. And, that is just what state and local groups in Washington appear to be doing.

The National Governors' Association's (NGA) main bone of contention is with the proposed cap on Medicaid funding. The Administration is seeking to control outlays under this federal-state health program for the needy by placing a 5% cap on the 1982 federal contribution. NGA finds the 5% cap unacceptable and instead would like the federal government to use its greater leveraging abilities to control hospital costs, which are projected to rise by 18% next year. In addition, NGA urges

certain changes to allow for cost-saving flexibility in the use of Medicaid funds.

The House Budget Committee assumed for the sake of its budget resolution that the cap on Medicaid spending will not be enacted. The Committee also assumed substantial savings derived from giving the states more flexibility in administering the program. OMB Director David Stockman, the **Governors' Bulletin** reports, will prepare legislation to make statutory revisions in the Medicaid program rather than rely exclusively on administrative waivers, as the Administration originally proposed, to grant states more leeway in structuring their use of Medicaid funds.

The NGA, the National Conference of State Legislatures, and other groups, the ACIR among them, would eventually like to see the federal government take primary responsibility for Medicaid, welfare, and certain other basic social programs. In return, states and local governments would move towards primary responsibility in such fields as law enforcement, education, transportation, and other areas traditionally of state and local concern.

The National Conference of State Legislatures (NCSL) deviates from NGA's policy regarding federalism on only one significant point. That is, the legislators are concerned that funds consolidated into block grants should be subject to each state's procedures, mechanisms, and laws for federal funds appropriations. State legislative oversight of federal funds continues to be a timely issue and one that highlights the delicate balance that often prevails in state capitols between the legislative and executive branches of government.

The National League of Cities (NLC) gives its qualified support to many of the Reagan Administration proposals but "believes that this rapid change is too drastic for many local governments." Instead of such precipitous cuts in state-local aid,

NLC urges that certain entitlement programs should be reformed. NLC proposes to control costs by modifying the consumer price index and combining indexation with discretionary control. Further, the NLC recommends that the Administration pay as much attention to curbing tax expenditures as it does to controlling direct outlays.

The U.S. Conference of Mayors (USCM), which represents many of the nation's big city mayors, stands alone in calling for the creation of new and costly federal programs to revitalize cities. USCM's first skirmish with the new Administration occurred over the Department of Housing and Urban Development's Urban Development Action Grant (UDAG) program, a \$675 million a year categorical grant program geared to stimulating private investment in urban areas. Originally slated for an early demise along with the Commerce Department's Economic Development Administration (EDA), UDAG was narrowly saved and is currently budgeted at \$500 million for FY 1982. Controversy over UDAG lingers, however, and OMB Director David Stockman vowed again in a March 19 hearing before the House Housing Subcommittee to drop it in FY 1983. HUD Secretary Samuel Pierce says more study is needed.

The National Association of Counties (NACo) like NGA, NCSL, and NLC, voices its members' willingness to absorb a fair share of the cuts, provided these cuts are accompanied by regulatory reform, time to adjust, and are not unfair to the deserving poor. NACo's legislative priorities include opposition to the Medicaid cap, restoration of EDA and UDAG grant moneys, CETA youth programs, and payments-in-lieu-of taxes (PILOT).

The inherent tensions in the intergovernmental system are all reflected in the views of these and other public interest groups. The disproportionate share of the

nation's poor that reside in our largest, older cities, the struggle between state legislatures and state executives over who controls the purse strings, the fear that states will not be responsive to local—particularly urban—needs, and the competition between urban and rural interests over dwindling federal funds have all surfaced as tensions in past policy development discussions and budget battles.

Yet, the inherent strengths in the intergovernmental system are also coming to the fore. The willingness to absorb cuts to accomplish broader goals, the agreement on the need to reform the grant system, and the growing acceptance of the states as more equal partners in tripartite governance are all positive signs of a healthy system that can, if pressed, adapt to the new era of limits.

Congress Must Be More Specific, Court Decides in *Pennhurst*

Congress must speak clearly enough so that states can make informed choices in deciding whether or not to accept federal grants-in-aid. That, in a nutshell, was the April 20th finding of the Supreme Court in *Pennhurst State School and Hospital v. Halderman* (No. 79-1404).

Rejecting the argument that the "Bill of Rights" contained in the *Developmentally Disabled Assistance and Bill of Rights Act of 1975* created a new group of substantive Fourteenth Amendment rights, the six-man majority ruled on the law in terms of its legitimacy under Congress' power to spend for the general welfare. And, there, five of the six found the "Bill of Rights"—actually a series of Congressional "findings"—far too vague to constitute a condition of aid. In fact, the Court found the "Bill of Rights" so amorphous that reading into it any particular obligations would really constitute an act of surprising participating states with post-acceptance or "retroactive" conditions.

While the Court acknowledged that conditions at Pennhurst are

not only dangerous . . . but inadequate for the "habilitation" of the mentally retarded, it decided, nonetheless, that it must "assume that Congress (would) not implicitly attempt to impose massive financial obligations on the states"—in this case, obligations which would have included closing Pennhurst and providing all residents with suitable "community living arrangements." In 1976, the year the case began, Pennsylvania had received only \$1.6 million in disability assistance. Hence, the Court decided that in light of other specific and clearly articulated conditions of aid in the Act, the "Bill of Rights" could only be read as a Congressional preference and not an affirmative state duty.

Also of significance, the Court considered whether residents of Pennhurst had cause to bring suit either under the Act itself or under Section 1983 of the **Civil Rights Act of 1871** which protects citizens against the denial of rights "secured by the Constitution and laws." Although the Court did not rule on this question, its opinion could be viewed as sending a rather clear message to the Court of Appeals where the issue was remanded for judgment. Thus, it found no private cause of action within the Act itself. Rather, according to the Court, the Act's sole remedy "may well be limited to enjoining the federal government from providing funds to the commonwealth."

To the question of bringing suit under Section 1983, Justice Rehnquist's majority opinion appears to indicate a judicial desire to begin reestablishing parameters on the scope of the law in the wake of last term's liberal **Maine v. Thiboutot** interpretation. Rehnquist, thus, argued first that it was questionable whether the state's failure to provide adequate "assurances" of its intent to the Secretary of Health and Human Services, constituted deprivation of a "right secured" by Section 1983. Moreover, the Court gave some weight to the **Thiboutot** dissent in which Justice Powell in-

timated that a 1983 cause of action would not be available where the "governing statute provides an exclusive remedy"—in this case, termination of federal funds—"for violation of the act." Whether this opinion is a signal that the Court intends to narrow Section 1983 in additional ways or merely a singular, case-specific impression, should become clearer later in this term. Significant decisions to watch for dealing with other aspects of Section 1983 are **Newport v. Fact Concerts, Inc.** (No. 80-396) and **Parrott v. Taylor** (No. 79-1734).

Legislation Introduced Calling for Federal Payments-in-lieu-of Taxes

Legislation resulting from ACIR research on payments-in-lieu-of taxes (PILOT) was recently introduced in the 97th Congress.

The issue here relates to federal immunity from state and local property taxes on nonopen space land including post offices, federal office buildings and many other types of installations. ACIR estimates that in 1978 states and localities lost \$3.7 billion in foregone taxes as a result of this immunity.

Virginia Rep. G. William Whitehurst's proposed H.R. 3314 would make federal grants to local governments for nonopen space property exempt from property taxation. In addition to Rep. Whitehurst's legislation, three other PILOT bills (H.R. 324, H.R. 368, H.R. 928) have been introduced. All four endorse the general principle of a full tax equivalency payment and recognize the inadequacies of the current patchwork approach to payments-in-lieu-of-tax programs as cited in ACIR's research on payments-in-lieu.

In its report and recommendations, the ACIR has emphasized the issue of equity: equitable treatment of leased versus federally owned office buildings, equitable treatment of all taxpayers in supporting federal activities, and equitable treatment of localities which currently received payments under several ad hoc programs and those who do not.

U. S. Supreme Court Declares First Use Tax Unconstitutional

The U.S. Supreme Court in late May declared unconstitutional Louisiana's "first use tax" on natural gas that is extracted from the federal Outer Continental Shelf (OCS) but which is processed in and transported through Louisiana on its way to market.

The Court ruled in **Maryland v. Louisiana** that the Louisiana tax "unquestionably discriminates against interstate commerce in favor of local interests" in violation of the Commerce Clause of the Constitution.

The Court also said the tax interfered with federal authority to regulate natural gas pricing, a violation of the Supremacy Clause.

The Court's ruling of unconstitutionality under the Commerce Clause followed from its conclusion that various tax credits and exemptions, enacted by Louisiana as part of its first use tax package, discriminated against interstate commerce by providing a direct advantage to local businesses and natural gas consumers. These credits and exemptions insured that no Louisiana consumer of OCS gas would bear any first use tax burden. They also had the effect of encouraging offshore gas producers to engage in similar activities within the state.

The Supremacy Clause violation stemmed from Louisiana's attempt to insure that the burden of the tax would fall on pipeline companies and their out-of-state consumers, rather than on gas producers, processors or the petro-chemical industry which depends on the products extracted when the gas is processed. The Court ruled that Louisiana incorrectly interfered with the authority of the Federal Energy Regulatory Commission which under federal law is responsible for allocating costs among pipeline companies, producers and processors.

A decision with broader implications for states and localities is expected soon in **Commonwealth Edison v. Montana**, which challenges the rate at which Montana imposes its severance tax on coal.

Back in Vogue: The Politics of Block Grant Legislation

by Timothy J. Conlan

Like frequent shifts in fashion, the tastes of Washington policy designers can change rapidly when a new administration assumes office. For example, block grants are now back in vogue after several years absence from the legislative racks.¹ Acting on his campaign promise to reduce the size and power of the federal government, President Reagan has made grant consolidation a principal component of his domestic policy program. His Administration is already moving ahead on a series of 15 new or restructured block grants in such fields as education, public health, social services, and community development (see *Table 1*).

¹Block grants are programs that seek to further some broad national purpose and in which funds are provided chiefly to general purpose governmental units in accordance with a statutory formula for use in a broad functional area largely at the recipient's discretion.

There are reasons to believe that conditions today are relatively favorable for these consolidations to succeed. Conservative winds are perceived to be blowing strongly throughout the country. The President claims a public mandate for restructuring federal aid programs as part of a comprehensive program for economic renewal. Republicans have gained control of the Senate for the first time in a quarter century, and in the past it is they who have proven most sympathetic to the goals of grant consolidation and reform. The nation's governors, state legislators, county officials, and mayors have come out strongly for added flexibility in federal programs to compensate for budget cuts.

These are positive signs for comprehensive program reform. Yet, those who eagerly await the coming of a vastly simplified federal aid system would do well to contemplate the lessons gleaned from earlier experience with grant reform. Block grants have often been proposed in recent years, and a history of their political reception has been compiled. This accumulated experience with the politics of block grants may shed some light on what can be expected as the new Administration's initiatives are considered by Congress.

Factors Associated with Success or Failure of Consolidation Proposals

Of roughly 20 major block grants advanced during the last 15 years, only five were enacted: **Partnership for Health (PHA)**, **The Law Enforcement Assistance Act (LEAA)**, **The Community Development Block Grant (CDBG)**, **The Comprehensive Employment and Training Act (CETA)**, and **Title XX of the Social Security Act** (see *Table 2*). Of these, LEAA was established as a block grant originally and did not represent a merger of existing programs. The other block grants were created by consolidating or restructuring existing federal programs in a functional area, in order to expand recipient discretion in the use of federal funds and to reduce administrative burdens stemming from multiple program requirements. In addition, block grants reduce uncertainty in funding and enhance the planning capability of recipients by providing funds on a formula basis.

Several smaller grant consolidations also gained enactment in recent years, including **The Education Amendments of 1974** and the **Comprehensive Older Americans Act Amendments of 1978**. Although they can improve program management, such modest grant consolidations are not considered block grants since they either fail to subsume the majority of programs in their functional area, do not distribute funds on a formula basis, or do not decentralize sufficient decisionmaking authority to state and local officials.

In contrast to these enactments, many other block grant proposals have failed to receive serious Congressional consideration. Some have been treated as legislative outcasts and even have had difficulty attracting Congressional sponsorship. This was true of President Nixon's "Special Revenue Sharing" proposals in the early 1970s, especially in the fields of education and transportation. Although similar in purpose, these special revenue sharing plans were distinguishable from conventional block grants in certain key respects. Block grants usually represent a compromise between the goals of increased state and local discretion and federal oversight. In contrast, special revenue sharing and its variants sought almost complete decentralization of program control, distributing funds "automati-

Table 1

**President Reagan's Block Grant Proposals:
15 Potential Consolidations**

Highways (14)*
Airports (2)
Education, State (32)‡
Education, Local (12)‡
Social Services (12)‡
Energy & Emergency Assistance (2)‡
Health Services (15)‡
Preventive Health Services (10)‡
Community Development (7?)‡
Indian Programs (11)
Employment & Training (3?)
Environmental Grants (?)
Nutrition Assistance (?)
Housing (FY 1983, Tentative)
Aging Services (5-7)

* Numbers in brackets indicate the approximate number of grant programs to be consolidated into each block grant. Question marks indicate that the number of programs to be consolidated has not yet been determined.

‡ Legislation already submitted by the President.

Source: ACIR staff compilations from *Fiscal Year 1982 Budget Revisions*, March 1981 and related sources.

cally" without application, planning, or approval requirements.

Different block grant and consolidation proposals thus have engendered vastly different political responses. Out of this mixed experience, it is possible to identify factors that can be associated with such positive and negative reactions. These do not combine to permit predictions of the future with any precision, but they do provide some clues about the kind of grant consolidations Congress traditionally has preferred.

Factors Associated with Success

Both substantive and political factors have contributed to the enactment of several block grants in the past. Substantive features were vitally important to the passage of CETA, CDBG, and Partnership for Health. Each of these three programs reflected a substantial intellectual consensus favoring grant reform that was shared by major elements of its policy community. In every case, even strong program supporters shared in the very widespread dissatisfaction with existing categorical programs. As early as 1970, for example, several key members of Congress, high officials in the Labor Department, the public interest groups, and academic manpower specialists all agreed, in principle, that categorical manpower programs needed to be consolidated and decentralized. Similarly, community development reform was favored by most of the community development "subsystem." The National League of Cities, U.S. Conference of Mayors, the National Association of Housing and Redevelopment Officials, and Democrats on the Housing Subcommittee of the House of Representatives all endorsed some form of block grant prior to the introduction of the Community Development Revenue Sharing proposal in 1971. One Congressional staffer said, "there wasn't a lot of opposition" to the block grant con-

cept. "You didn't get anybody mad." Likewise the Partnership for Health concept came to be endorsed by increasing numbers of health and public administration professionals prior to its enactment.

In addition, support for such reforms spanned both Democratic and Republican administrations. Initial efforts to improve coordination of both manpower and community development programs began during the Johnson Administration, through programs like the Concentrated Employment Program, the Cooperative Area Manpower Planning System, and Model Cities. The health block grant was actually enacted during the "Great Society" in 1966. This legacy of Congressional, bureaucratic, and interest group support for some degree of consolidation subsequently meant that, in these policy fields, the fate of the Nixon Administration special revenue sharing proposals did not rest solely on partisan considerations, so eventual compromises over block grants became possible.

This substantive consensus was very important in promoting the eventual passage of block grants in all these fields. However, several political factors were also of crucial significance.

Strong Public Interest Group Support. The public interest groups were very strong and well-established members of the policy environment in both community development and manpower. This was especially true of local governments. The cities were the preeminent clientele of community development policies and comprised the primary reference group for Congress in this area. They shared this role with organized labor in the manpower field. Consequently, local generalists who supported consolidations were able to outweigh any functional interest group in the field that might oppose it.

In addition, funds in both cases went primarily to one plane of sub-national government—the local level. Consequently, disruptive fights between state and local supporters of decentralization did not completely paralyze the proponents of consolidation. Even under these circumstances, intergovernmental conflicts among various supporters of decentralization comprised one of the central political issues which complicated early and rapid adoption of a block grant. State and local interests fought openly with each other for control of both community development and manpower funds, and one lobbyist summarized the struggle over CDBG as "more of a city-county battle than a House-Senate or an administration one." While such battles can cause major difficulties in fields where the proper grant recipient is fairly obvious, they can potentially be crippling in fields where various jurisdictions have equal claims to funding.

Congressional Jurisdictional Rivalry and Control. The impact on Congressional committee jurisdictions can be another important political consideration. Successful consolidations to date have come under the purview of a single committee and subcommittee in each chamber of Congress. Proposals that would remove a program area from the jurisdiction of one committee or subcommittee in order to combine it with similar programs in other areas have fared poorly, as in merging vocational education with manpower training and employment programs or consolidating school lunch programs and education programs. As in the case of Executive Branch reorganizations, members of Congress tend to fiercely resist losing jurisdiction over areas of federal policy.

Equally important to the Congress in the past has been

Table 2
Summary of Block Grant Proposals and Recommendations in the Past

Recommendations	Block Grants Enacted	Major Block Grant Proposals Not Enacted
1949—"A system of grants should be established, based upon broad categories . . . as contrasted with the present system of extensive fragmentation." Hoover Commission.		1947—Public Health Program Consolidation 1949—Consolidation of Federal Public Assistance Programs
1955—"Conditional grants represent a basically sound technique, despite their piecemeal development and hodgepodge appearance." Kestnbaum Commission.		1951—Public Health Program Consolidation
1967—"The Commission recommends . . . a drastic decrease in the numerous separate authorizations for federal grants—adopting as a general goal a reduction by at least half the number." Advisory Commission on Intergovernmental Relations.	1966—Partnership for Health	
1967—"Block grants promise "better coordination" and "greater flexibility." "Such efforts should be intensified." Committee for Economic Development.	1968—Law Enforcement Assistance Act	1970—Manpower Training Act 1971—Special Revenue Sharing Proposals for Transportation, Community Development, Education, Rural Development, Manpower Training, and Law Enforcement. 1973—Better Schools Act
1975—"The consolidation of fragmented and restrictive programs is fundamental to <i>improving the administration of federal assistance programs</i> at all levels of government. . . . Consolidating separate programs serving similar objectives into broader purpose programs . . . should increase the efficiency and effectiveness . . . of federal assistance." General Accounting Office.	1973—Comprehensive Employment and Training Program 1974—Community Development Block Grant 1975—Title XX of the Social Security Act	
1978—"Block grants "represent an improvement over categorical programs. . . . Congress and the President should continue to review program assistance areas to identify opportunities for combining categorical programs into block grants." Commission on Federal Paperwork.		1976—Ford Administration Proposals for Health Services, Education, Child Nutrition, and Social Services Block Grants 1977—"Bellmon-Domenici" Education Block Grant Proposal
		1979—Child Nutrition Consolidation, Senators Bellmon and Domenici 1980—Bellmon-Domenici Education Block Grant Proposal 1980—Termination of Block Grant Portion of Law Enforcement Assistance Act

Source: ACIR staff compilations

the retention of certain federal guidelines over use of block grant funds. Even some Congressional conservatives resisted turning to a special revenue sharing approach, which would abandon most federal planning, application, reporting, and approval requirements. One conservative Republican Congressman, former Rep. William Scherle (IA), expressed his concern with an early manpower training block grant this way: "As trustees of the people and the taxpayers, we have got to make sure that the money is well spent."

More liberal Republicans and Democrats virtually insisted that at least a modicum of federal control be assured in these earlier block grants. For example, former Sen. Jacob Javits (NY) lectured one Assistant Secretary of Labor about the need for federal guidelines in the CETA program:

What I am afraid of is . . . that . . . special revenue sharing means we are going to give them the money . . . but the United States is not underwriting the fact that it will be done. . . . The fact is we are appropriating money for manpower training. I believe we must absolutely insist that the executive department will underwrite the fact that money will actually be used for the purpose for which we appropriate it.

These views were later echoed by Rep. Carl Perkins (KY), chairman of the House Committee on Education and Labor. He described the final CETA legislation as:

. . . a compromise between those who favored the so-called revenue sharing approach and those who believed in a strong federal role. . . . The compromise was to decentralize the planning and administration . . . but to require careful federal review and approval of the local plans and to place squarely with the Secretary of Labor the responsibility for seeing that the conditions . . . of the law . . . are in fact carried out We will insist and expect that the Department will . . . use the time that would otherwise have been spent processing a mountain of paperwork . . . to monitor and evaluate these programs. . . . We will hold [the Secretary] strictly accountable.

In fact, except for LEAA, each of the major existing block grants was the product of a similar compromise over the degree of federal control. Even in those fields with broad support for block grants, Congress has shown little previous willingness to accept a program lacking some effective means of federal oversight.

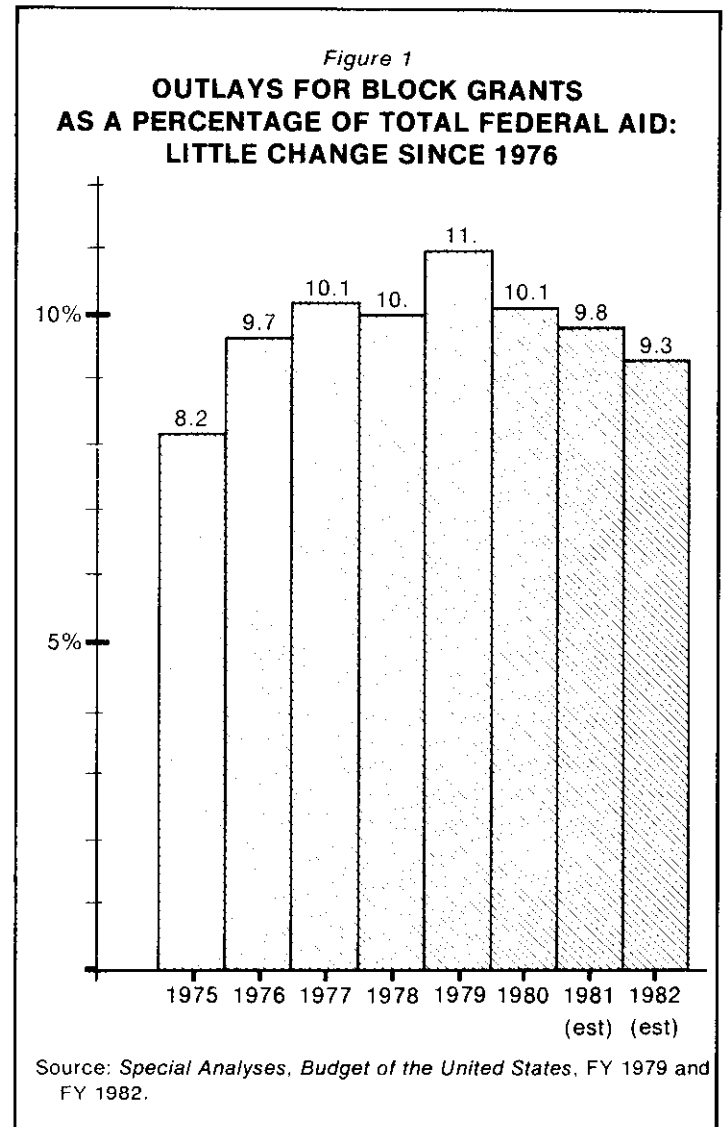
The Presidential Role. The experience of the Nixon Administration suggests that a President advocating block grants must adopt a judicious strategy that balances cooperation with Congress against sufficient pressure to elicit action from some reluctant legislators. Many members of Congress, including some Republicans, responded with hostility when the Nixon Administration first proposed unrealistically extreme program decentralizations and then sought to coerce Congressional acceptance of unpopular proposals by impounding categorical funds and attempting to implement special revenue sharing by administrative fiat. CDBG and CETA were enacted only after more conciliatory members of that Administration gained sufficient authority to negotiate compromise proposals with Congress involving less extreme decentralization and modest additional funding. At the same time, the often subtle threat of a potential veto of plainly unacceptable legislation and the relentless pursuit of reform by the Administration remained invaluable assets in the quest for consolidation.

Increased Appropriations. Finally, consolidations have

tended to require increased appropriations to make them politically palatable. Opposing Congressmen frequently can be persuaded to accept a consolidation if they are compensated for a perceived loss in control over spending decisions by increased funding of their policy area. Similarly, proponents of each individual program who fear the consequences of having to fight for their share of consolidated funds may be mollified by the prospect of competing for shares of a larger pie. Their fear of downside risks can be reduced as the potential for an upside gain increases.

While it mollifies single program advocates, increased funding also reduces the prospects of creating new opponents among recipients of existing programs. Enactment of a block grant is almost certain to result in a different distribution of funding. It may require the use of a funding formula where none was used before or the use of a different formula for some of the programs consolidated. Thus, hold harmless provisions were found necessary, in the past, to protect against losses of funding to certain older beneficiaries since the new allocation delivered new funding to other recipients.

Accordingly, most of the major block grants enacted have delivered more funding initially than did the pro-



grams they replaced. LEAA provided new funds entirely, while CETA and CDBG contained additional funds to implement hold harmless provisions. At the time, these gains were in stark contrast to the budgetary constraints that bound many of the categorical programs folded-in to them. Many of these programs had been targets of appropriation vetoes and impoundment attempts under the Nixon Administration. On the other hand, this initial growth rate has not been sustained since these blocks grants were established. *Figure 1* shows block grant funding as a percentage of total federal aid. Once these programs became fully operational in FY 1976, their proportion of the federal aid budget remained relatively stable. They have largely kept pace with the modest growth of federal aid as a whole, but they have not grown faster as some proponents had originally hoped.

Although each of the four political factors was clearly identifiable in the passage of both CETA and CDBG, some exceptions were apparent in other block grants. For example, the factors relating to public interest groups and Congressional jurisdictions were not observed in the enact-

ment of LEAA. Jurisdictional politics in Congress were irrelevant since LEAA created a block grant from scratch, using new appropriations. No consolidation was required. Nor was the division of subnational authority easily resolved. Although local governments were dominant providers of many law enforcement services, they received no share of block grant funds directly from the federal government. As a result, the politics of the program were marked by intense state and local rivalries throughout its existence. Moreover, the block grant mechanism was the product of a conservative coalition, not the product of a general consensus. Such factors help explain why LEAA proved more vulnerable to constant political attack and underwent the most extensive process of recategorization. Its troubled experience seems to suggest that the more a proposal has deviated from the positive factors identified here, the less favorable its political climate will be.

Factors Associated with Failure

In contrast to these successful enactments, some block grant proposals never received serious consideration from

A Natural History of Block Grants: Summarizing the Experiences of Four Existing Programs

PARTNERSHIP FOR HEALTH ACT: "FROM GIANT TO PYGMY"

The PHA retained most of its flexibility and state discretion over time, but this appears to have promoted federal disinterest in the program. The block grant was habitually ignored by Congress as numerous categorical health programs were subsequently established, instead of being subsumed under the PHA. Funding for the program increased very little over time. Even the Administration of President Ford, which strongly favored block grants, recommended terminating the PHA and folding it into a new and much larger health services block grant.

LAW ENFORCEMENT ASSISTANCE ACT: CREEPING CATEGORIZATION AND EVENTUAL DEMISE

LEAA was initially created as a block grant in response to concerns about the establishment of a strong federal role in local law enforcement. Almost immediately, however, many local government officials and members of Congress expressed dissatisfaction with the way in which the program was administered by the states. Accordingly, the program underwent an extensive process of recategorization. Block grant funds were earmarked for corrections, juvenile justice, and neighborhood crime prevention. The block grant continued to suffer politically, however, and, faced with growing budgetary constraints, Congress elected to terminate it in 1980.

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT: IN AND OUT OF THE SHADOWS

The CETA block grant was established as a complex hybrid, in which a moderately decentralized block grant for training services was combined with several national emphasis categorical grants and a public employment program. Although the block grant portion subsequently suffered little recategorization itself, it came to be overshadowed by other portions of the act. Over time, the categorical components of CETA were enlarged by the addition of multiple youth employment and training programs, a new private sector training program, and a massive new countercyclical employment program. After several years of rapid increases, expenditures on this latter program have declined in recent budgets, and it is scheduled to be phased out under President Reagan. This will make the block grant portion once again the centerpiece of CETA.

COMMUNITY DEVELOPMENT BLOCK GRANT: A CONTINUING COMPROMISE

Like the block grant portion of CETA, the CDBG program was established as a compromise between supporters of extreme decentralization in the Nixon Administration and Congressional proponents of continued federal oversight and priority setting. To date, this compromise has been largely maintained. Attempts during the Carter Administration to require additional targeting of funds on the poorest urban neighborhoods were largely unsuccessful, although HUD's administrative interpretations of the law have served to restrict local flexibility in some instances. While the block grant itself has not undergone recategorization, a major new categorical program—Urban Development Action Grants—was established separately under President Carter rather than subsumed within the block grant. However, the primary controversy concerning CDBG has involved matters of funding distribution rather than decentralization or decategorization. A new formula was added to the original one in 1977 which served to increase funding to cities in the northeast.

Congress. Several of President Nixon's special revenue sharing proposals encountered such negative receptions, as did President Ford's block grant proposals in education, child nutrition, and health. Many of these bills had difficulty even gaining Congressional sponsorship. Such bleak experiences leave little legislative history to discuss. Several education proposals did provoke substantial debate, however, and their experiences provide some clues about why certain block grants fail in Congress.

From the very beginning, the Education Revenue Sharing (ERS) plans advanced by the Nixon and Ford Administrations were totally rejected by most of the education policy community. Although there periodically has been some diffuse support for a degree of consolidation and program simplification in education, there never has been agreement on key elements of such a plan. For example, should Title I and Impact Aid have been included in consolidated programs? Both already allowed considerable discretion to local recipients, and most assessments of Title I in the past suggested that there should be greater federal oversight of the program rather than less. Including these programs also raised divisive issues of intergovernmental relationships. Both state and local authorities jealously sought to guard their prerogatives under existing programs and to expand them under any new system of federal assistance. Since Title I and Impact Aid funnel money almost directly to the local level, local school boards would accept no consolidation which granted additional authority to state education agencies. Moreover, the public interest groups did not weigh in on behalf of any block grant arrangement in education since this function is administered with great autonomy in most states. Most mayors and governors chose not to get involved.

The problems in constructing a suitable administrative system for block grants in education thus serve to illustrate the difficulties encountered in many fields. Even if there is a general consensus on the basic need to consolidate and decentralize federal aid programs in a certain field, any particular proposal can fail due to strong differences among consolidation advocates over how funds should be distributed and who should control various aspects of program administration. Disputes over the relative authority of federal, state, county, and city governments, between specialists and generalists, over what eligible activities should be allowed, and over the degree of federal oversight and planning requirements characterize the histories of all major block grant proposals and can seriously hamper passage even of proposals with considerable abstract support.

Perhaps the greatest obstacle facing consolidation in education was widespread suspicion that it was intended essentially as a budget cutting device. The Nixon Administration ERS plan was preceded by two years of strenuous appropriation battles between OMB and supporters of existing education programs. When ERS was proposed, education supporters interpreted it as a new strategy to undermine the education budget. Such suspicions were aggravated by smaller proposed budgets for ERS due to the elimination of parts of Impact Aid. Subsequently, impoundment was used and threatened in an attempt to force acceptance of ERS. These harsh tactics essentially backfired, since they served to coalesce the entire education community against consolidation as a budget tool, rather than allow the Administration to exploit potential support for consolidation among segments of the education lobby and to promote disunity among opponents. The current

legislative climate may lend itself more readily to budget cutbacks, but history suggests that it is difficult to combine this simultaneously with consolidation.

More conciliatory attitudes assumed by the Nixon Administration in 1973 and 1974 (but still backed by the threat of a veto) helped to spur the enactment of a small, mostly symbolic consolidation of several politically vulnerable education grant programs in 1974. However, Congress stipulated that the consolidation would not go into effect if appropriations fell below the existing spending levels. Moreover, the whole experience proved disappointing. The consolidation created an awkward combination of equipment and personnel (guidance and counseling) programs that actually increased paperwork and confusion for many recipients. It worked so poorly that it was largely dismantled four years later.

In 1978, Rep. John Ashbrook proposed to substitute for existing education programs a massive block grant, but this measure was defeated by an overwhelming vote of 79 to 290. In the Senate, the so-called Bellmon-Domenici Bill met a similar fate. While not conclusive, these cases suggest that successful program consolidations in education will not be easy.

Evaluating the Potential for New Consolidations

Since 1974, there has been relatively little serious movement on the program consolidation front (see *Table 2*). President Ford's proposals met with no success. The Carter Administration did not support adoption of large scale block grants, possibly due to its concern that block grants could undermine the targeting of federal aid. Some small consolidation proposals were advanced by the Carter Administration, mostly in the last two years, across a spectrum of program areas, including elderly assistance, vocational rehabilitation, forestry programs, economic development, energy, environment, airport development, health planning, and fish and wildlife programs. Only the first three proposals were accepted by Congress.²

One approach employed with increasing frequency in recent years has been to make program consolidation optional with recipients. The **Cooperative Forestry Assistance Act** and proposed consolidations of environmental, child nutrition, and education programs all permit state discretion in choosing to accept funds in a consolidated package or to retain existing categorical. Such an incremental approach might prove more politically palatable. However, even this optional approach has gained Congressional approval only in the forestry program.

Laying the Groundwork

Considering only this recent history, the outlook for important new consolidations would be mixed, at best. Judging from experience, one useful step in developing a viable proposal would be to search for an area where program supporters already indicate some support for a block grant, possibly in education or transportation. For example, some education groups have continued to urge that certain education programs be consolidated, despite the failure of earlier proposals. And President Carter's FY 1982 budget proposed consolidating 44 separate highway programs. Such suggestions form one basis for new executive initiatives, and, in fact, the Reagan Administration is developing block grant legislation in both of these areas. An incre-

² The FY 1982 budget of the Carter Administration also included new consolidation proposals in the fields of transportation, youth employment, and health planning.

mental strategy would utilize consultations with pro-consolidation groups and with the public interest groups to ascertain where support for such reforms can be mobilized most effectively and what trade-offs might be necessary to prevent potential supporters from being alienated from such a plan. Accordingly, such proposals seem to fare best where they are developed openly, within a spirit of compromise.

There has been in the past little point in demanding extreme decentralization of program control along the lines of special revenue sharing. Congress has consistently rejected such proposals. Even many conservatives tend to want some controls retained on block grants to assure fiscal accountability and to secure certain national concerns such as not allowing federal aid to education to be used for teacher salaries.

Positive Signs

Of course, there are a variety of new developments that may restrict the usefulness of recent legislative history in shaping viable consolidations. The vigorous endorsement given to grant consolidation by the new administration is a factor that can greatly improve the prospects for success. Another positive development for consolidation will be Republican control of the Senate. In the past, the Senate has been considerably more prone to proliferate categorical programs than has the House, although both obviously have contributed to this problem. As a means of coalition

building, the Senate tends to rely more heavily on the use of omnibus legislation composed of many Senators' categorical programs. The House generally has been inclined to develop a more comprehensive approach. Since Republicans generally have been more sympathetic to the goal of grant consolidation in the past, Republican control of the Senate may serve to temper its categorical propensity. Certainly, Sen. Howard Baker (TN) has given strong endorsement to the goal of consolidation, both during his run for the presidency and since achieving status as majority leader.

As in the past, certain personal and environmental factors also may contribute to the passage of consolidation legislation. CETA and CDBG were passed only when President Nixon assumed a compromising legislative posture, and President Reagan has indicated that he may prefer a similar negotiating style. Within the political environment, factors that may favor grant consolidation include the "anti-Washington" mood that seems to characterize much of current public opinion. Moreover, state and local officials have grown increasingly dissatisfied with federal requirements and seem more determined than ever to gain more flexibility in the use of federal aid. Given the declining influence of party politics, Congressional behavior has become volatile, at times, and thus Congress may prove more responsive to such environmental forces promoting grant reform in coming months than was the case in past years.

The Reagan Administration's Current Block Grant Proposals

By mid-May, the Reagan Administration had sent to Capitol Hill six different block grant bills in the areas of preventive health, health services, social services, energy and emergency assistance, elementary and secondary education, and community development. A reading of these bills permits several generalizations to be made concerning this Administration's approach to block grants.

Four of the bills—energy assistance, social services, and two in public health—emanate from the Department of Health and Human Services, and they share practically identical design characteristics. Generally speaking, the Administration has taken a "special revenue sharing" approach in these proposals. States are the prime recipients of funds in each of these bills, and they are given a great deal of latitude in the use of funds. Funds are distributed automatically, with no application-approval process required. To receive money, Governors are required only to make available to the public a plan of how funds will be used. None of the bills requires any detailed reporting to the federal government. States need only file a report of how funds were used every two years. Programs also must be audited every two years. No maintenance of effort or matching requirements are included in any of the bills. However, discrimination on the basis of race, color, national origin, sex, age, and handicap is explicitly prohibited in all of them.

Each of the HHS block grants distributes funds on a modified "hold harmless" basis. Authorizations are to be cut 25% in each case, with the remaining funds to be distributed to states in the same proportion as they received funding under all the categorical programs folded in. New formulas based on need or other objective criteria are not proposed. In addition, states are permitted to transfer up to 10% of

their allotment under each block grant to any of the other HHS grants.

Although they share the same general approach, the education and community development proposals are somewhat more complex than the HHS proposals. The education proposal establishes two distinct block grant programs—one intended for disadvantaged and handicapped students and those with special needs, and the other to deal with a broad array of research, institutional and curricular matters. The first program is intended mainly to replace the Title I and handicapped education programs. States are required to pass-through most of the funds to local school districts. The second program is left to state discretion. Both use much more complex formulae than the HHS programs, but these are phased-in over time. Although they are more complex, the education proposals have reporting, auditing, and discrimination provisions very similar to the HHS plans.

The community development proposal is the most distinctive. This is a one-year, temporary proposal to modify CD programs while the Administration considers more extensive changes. Funds are increased somewhat over current CDBG expenditures, but this is to accommodate the 701 planning, 312 loan, Neighborhood Self-help, DOE Weatherization, and CSA community economic development programs which are folded in. Although CDBG's dual formula is retained, it is modified to increase funds for balance of state areas and to reduce shares for entitlement communities. The state role is also increased, and recipients are granted somewhat more flexibility. However, the program remains more complex than the HHS proposals, and more federal reporting and oversight power is retained. The Urban Development Action Grant (UDAG) and the Secretary's discretionary fund will also be continued in revised form but will be reduced substantially in size.

—Tim Conlan

Implications of the Budget Squeeze

At the same time, the current budget situation places the entire question of grant consolidation prospects in a new and somewhat different light. In the past, it has always proven necessary to "buy" consolidation. Even where support for grant consolidation has been widely shared, additional funding was necessary to pay for hold harmless provisions caused by new formulas, to counter expectations that consolidation was motivated by a deeper hostility to program goals themselves, and to alleviate Congressional concern over losing opportunities for claiming credit.

Obviously, less money—not more—is in the works for many of the programs currently scheduled for consolidation. For example, Reagan Administration block grant proposals in the fields of health and human services will reduce federal spending in these areas by 25%, although they attempt to skirt the troublesome issue of hold harmless by retaining the current distribution of funds (see the box describing the Reagan Administration Proposals on page 14). In a time of declining budgets, some Congressmen and affected interest groups may be even less willing to risk the loss of remaining funds by seeing "their" programs consolidated into a block grant. If we have entered an era of "atomized" politics, characterized by ever greater influence by special interests and single issue groups, as many believe, then interest group reactions to consolidation may be even more troublesome than before.³ The public interest groups can be expected to counter these program interests on the issue of consolidation, but they will lose effectiveness if they are seriously divided over the issue of who controls block grant funds—an issue with both state-local and state executive-legislative implications. This has been a major problem with block grants in the past, and indications are that the budget squeeze will intensify such rivalries. At the same time, the Administration's budgetary priorities may tend to siphon off political resources it needs to sell consolidation.⁴

On the other hand, certain aspects of the current budgetary situation may enhance the prospects for consolidation. Certainly, the general climate that exists at present appears supportive of fundamental changes in the federal role, although abstract public attitudes can rarely be expected to influence the details of federal grant programs. More significant will be the role played by state and local public interest groups. Given the prospects for substantial budget cuts, activity by governors and state legislators, especially, has begun to coalesce around the need for increased flexibility over federal aid to compensate for fewer funds. Expressions of support for trading flexibility for funding have largely gone untested in the past, since such arrangements have had difficulty gaining broad acceptance in detailed form. However, early indications are that such a tradeoff will be pushed more vigorously by public interest groups this year, given the near certainty of some substantial budgetary cutbacks.

Apart from federal aid reductions, one other consideration has heightened the concern of state and local governments with program flexibility. That has been the growing

“In a time of declining budgets, some Congressmen and affected interest groups may be even less willing to risk the loss of remaining funds by seeing ‘their’ program consolidated into a block grant.”

recognition of the role played by federal mandates in limiting their autonomy. When practically all federal strings were program specific, consolidation offered considerably more relief than it does now. Although it still can simplify administrative procedures, mere consolidation has no effect on many of the most intrusive and expensive federal mandates originating in cross-cutting requirements. OMB, for instance, has identified 37 social and economic requirements that now apply to a broad range of program areas. Unless the effects of these requirements are also modified, the gains of consolidation may fall short of balancing the effort required to obtain it. The last ten years have shown that, in the absence of a simultaneous reform of federal intergovernmental regulation, program consolidation and block grants can be considered as only incremental reforms of the intergovernmental system, not as bulwarks of a substantially different "New Federalism."

Conclusion

Despite the Administration's mandate and the election of additional conservatives to Congress, fundamental reform of the federal grant system through major consolidations will not be a simple task. The easiest block grants, which represented broadly popular reforms in areas dominated by the public interest groups, already have been enacted. Support will have to be assiduously cultivated in the remaining areas. Moreover, the Administration's budget cutting priorities may create as many difficulties as opportunities for grant reform, if the past is any guide. Certainly, concern with the economy and with inevitable foreign policy crises will diminish the political resources this Administration can commit to federalism issues. It has proven very easy for intergovernmental issues to get crowded out of the national agenda in modern times, even for administrations which were serious about addressing them.

In short, supporters of consolidations will have to work early and enthusiastically for their adoption. They cannot afford the luxury of wrangling among themselves over programmatic details, in expectation that consolidations will be won during a presidential honeymoon. Achieving fundamental grant reform will prove more difficult than federal aid reductions, and modifying federal mandates may be harder still. The opportunity exists but only if supporters of reform understand the obstacles and are equal to the task.

³ Anthony King, "The American Polity in the Late 1970s: Building Coalitions in the Sand," *The New American Political System*, ed., Anthony King, Washington, DC, American Enterprise Institute, 1978, pp. 390-91.

⁴ Conceivably, the Administration could attempt to promote consolidation by promising smaller budget cuts to areas that accept consolidation than to categorical programs, but this would be difficult to sell. It would require convincing assurance that greater cuts actually would occur without consolidation.

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Block Grants: The Promise and Reality

The recent renewed interest in block grants has elicited considerable misunderstanding and perhaps false hope about what block grants can and cannot achieve. Block grants can serve a very useful purpose, but they are not ideal for every functional area, for every group of programs.

Several years ago, the Advisory Commission on Intergovernmental Relations made a detailed study of four of the five block grants—the **Partnership for Health Act**, the **Omnibus Crime Control and Safe Streets Act**, the **Comprehensive Training and Employment Act**, and the **Housing and Community Development Act**.¹ The record of these grants was mixed. They neither lived up to the high expectations of their most enthusiastic supporters nor to the devastating predictions of doom from their most ardent critics.

Summarized below are some of ACIR's findings and its recommendations on constructing a block grant.

Is It Fish or Fowl?

Not every grant consolidation is a block grant. Over the years, various consolidations have occurred which do not fall under the rubric of a block grant. Block grants have at least five features that differentiate them from other federal assistance instruments:

- Federal aid is authorized for a wide range of activities within a broadly defined functional area.
- Recipients have substantial discretion in identifying problems, designing programs to deal with them, and allocating resources.
- Administrative, fiscal reporting, planning, and other federally imposed requirements are kept to the minimum amount necessary to ensure that national goals are being accomplished.
- Most of the federal aid is distributed on the basis of *statutory formulas*, which has the effect of narrowing federal administrators' discretion and providing a sense of fiscal certainty to recipients. And,
- Eligibility provisions are statutorily and usually narrowly specified, and favor general purpose governmental units as recipients, and elected officials and administrative generalists as decisionmakers.

By combining these traits, a block grant may be defined as a program which seeks to further some broad national purpose and in which funds are provided chiefly to general purpose governmental units in accordance with a statutory formula for use in a broad functional area largely at the recipient's discretion.

One way to differentiate block grants from categorical grants and General Revenue Sharing is to envision a continuum representing the range of recipient discretion. General Revenue Sharing would be one extreme, signifying maximum recipient discretion. Categoricals would be

at the other extreme, representing maximum federal prescription. Block grants would fall somewhere in the middle.

The Record is Mixed

Supporters of block grants frequently cite these arguments:

- Block grants are cheaper, simpler, and more efficient than categorical aids at providing assistance to states and localities to achieve certain national purposes.
- They help decentralize the system by giving recipients substantial discretion over how funds will be used in their jurisdiction.
- They call for policy decisions made by generalists instead of "bureaucrats" or specialists.
- They reduce duplication of functionally related programs and enhance cooperation.
- They target aid to units having the greatest need. And,
- They encourage program innovation.

The evidence shows that under certain conditions, block grants can lead to improved economy and efficiency, greater decentralization, more generalist control, and increased coordination. They appear less well suited to achieve *targeting, innovation, and program enlargement*.

In general, experience under the four programs ACIR examined indicated that significant policy and administrative decentralization was achieved, federal personnel and paperwork costs were reduced, processes or facilitating interfunctional and intergovernmental coordination were established, and elected chief executives and legislators as well as administrative generalists were given significant roles in block grant decisionmaking.

Yet even in its strongest points, encouraging generalist involvement and paperwork reduction, the record was mixed. For example, ACIR found that while block grants may reduce federal personnel and paperwork, they may well increase the administrative costs borne by recipients—particularly localities which receive aid money passed through the states. And the generalists have to feel that it is worth their time and energy in terms of dollars, allocational discretion, and political payoffs for them to get involved. In fact, the experience of the four block grants showed that relatively low appropriation levels, along with the tendency of the Congress to "recategorize" the block grants, often limited the impact of the grants and usually worked at cross purposes with the nature and intent of the instrument.

Designing a Block Grant

In establishing a block grant, Congress must be aware of both the strengths and weaknesses of the block grant—what it can and cannot do. It should balance the accomplishment of a national purpose within broad functional areas with the exercise of substantial recipient discretion in allocating funds to support activities which contribute to the alleviation of state and local problems. But this is a tightrope act. With well-designed allocation formulas and

¹Safe Streets Reconsidered: The Block Grant Experience—1968–1975 (A-55); The Partnership for Health Act: Lessons from a Pioneering Block Grant (A-56); Community Development: The Workings of a Federal-Local Block Grant (A-57); The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant (A-58). A summary of these analyses is contained in **Block Grants: A Comparative Analysis** (A-60).

tight eligibility provisions, as well as adequate funding, block grants can be used to:

- provide aid to those jurisdictions having the greatest programmatic needs and give them a reasonable degree of fiscal certainty;
- accord recipients substantial discretion in defining problems, setting priorities, and allocating resources;
- simplify program administration and reduce paperwork and overhead;
- facilitate interfunctional and intergovernmental coordination and planning; and
- encourage greater participation on the part of elected and appointed generalist officials in decisionmaking.

The block grant should then be used primarily in cases where:

- a cluster of functionally related categorical programs has been in existence for some time;
- the broad functional area to be covered is a major component of the recipient's traditional range of services and direct funding;
- no more than mild fiscal stimulation of recipient outlays is sought;
- a modest degree of innovative undertakings is anticipated;
- program needs are widely shared, both geographically and jurisdictionally; and
- a high degree of consensus as to general purposes exists among the Congress, the federal administering agency and recipients.

Once the decision has been made to form a block grant in a functional area, its careful design is a crucial factor in its success in achieving various goals. The Commission recommends the following guidelines be taken into account when developing proposed block grant legislation:

- The program objectives and priorities should be clear and precisely stated.
- A substantial portion of total federal aid for providing services and facilities in the functional area involved should be encompassed.
- A wide variety of activities should be authorized within the functional area covered, and recipients should be given significant discretion and flexibility in developing a mix of programs tailored to their needs.
- Funds should be distributed on the basis of a statutory formula that accurately reflects program need and that is consistent with the purposes and priorities of the legislation.
- Discretionary funds, if authorized, should account for not more than 10% of total appropriations.
- Eligibility provisions should be specific, favor general purpose units of government and reflect their servicing capacity, legal authority, and financial involvement.
- Matching, if called for at all, should be statutorily fixed at a low and preferably uniform rate for all aided activities.

- Planning, organizational personnel, paperwork and other requirements should be kept at the minimum necessary to ensure that funds are being spent in accordance with the program's authorized objectives.
- The federal administering agency should have authority to approve, within a specified period, recipient plans and applications for conformance with legislative objectives and also to evaluate program results. And,
- Capacity building assistance should be provided to recipients, as needed, to enhance their ability to effectively administer the program.

The record would suggest that one of the most important elements in this design is adequate funding. If the block grant is expected to produce changes in intergovernmental or functional relationships and to show results in tackling the problems it was intended to address, then sufficient moneys to generate a "critical mass" must be made available. In particular, the funding threshold should be substantial relative to direct state and/or local outlays, to total federal expenditures in the area covered, and to the size of functionally related categorical grants. Otherwise, the catalyst effect will not be significant.

—Carol Weissert

Stage Two: Revenue Turnbacks

by Albert J. Davis and John Shannon

The 1981 intergovernmental news from Washington has been dominated by President Reagan's proposed budget cuts affecting grants to state and local governments and their residents—cuts which will effectively increase the responsibility of state and local governments for many human services and capital projects. Other legislative proposals and administrative initiatives are intended to give state and local governments more discretion in how they use remaining federal funds. These moves are related to the Administration's general push for less burdensome federal regulation exemplified in proposals to end or consolidate a multitude of narrow purpose categorical grants into major block grants with few requirements.

The President and his spokesmen have repeatedly emphasized a long-range intergovernmental policy that goes beyond cutting back grants, consolidating them, and giving state and local governments more freedom from federal controls. The President has talked about turning back fiscal resources as well as program responsibilities. At the National Republican Convention last fall in Detroit, Candidate Ronald Reagan clearly enunciated his support for a "turnback" policy as his underlying approach to the issues of federalism:

Everything that can be run more effectively by state and local governments we shall turn over to state and local governments—along with the funding sources to pay for it.

More recently, President Reagan told officials of the National Association of Counties,

I have a dream of my own; I think block grants are only the intermediate steps. I dream of a day when the federal government can substitute for those, the turning back to local and state governments of the tax sources that we ourselves have pre-empted here at the federal level, so that you would have the resources.¹

This article will focus on methods and issues concerning the turnback of financing resources to state and local governments—a second stage in the President's decentralization plan.

Ways To Turn Back Resources

Returning resources to states and localities can be done by a variety of methods. Along a spectrum, there are four broad major alternatives:

- Revenue Sharing on a formula basis.** Acting through the appropriation process, the Congress shares a part of its revenue with states or states and localities. (An example is the present General Revenue Sharing program.) Funds would be distributed by formulas which take account of differences in fiscal capacity and need, as well as the magnitude of returned responsibilities.
- Tax Sharing on an Origin Basis.** Congress could provide a permanent state-local entitlement to a specific portion of tax receipts, with shares in the same proportion as the tax revenues. For example, if California taxpayers account for 12% of all federal income tax receipts, California would receive 12% of the portion of the income tax revenue shared with the states.
- Conditional Relinquishment of a Federal Tax.** Congress could give up part or all of a tax on the condition that the state or locality adopt that tax. One example is a federal tax credit for state enactment of a "pick-up tax," such as the federal tax credit enacted in 1926 for payment of state estate taxes.
- Unconditional Relinquishment of a Federal Tax.** Congress could give up a portion of a tax or vacate an entire tax field *without* a requirement for a state or local "pick-up." Thus, if a state does not move into the area, the taxpayer benefits with a net tax reduction, for example, the phase-out of the federal tax on amusement tickets, during the 1960s.

Different Turnback Methods Serve Different Policy Objectives

To arrive at the best method of turning back resources,

¹ The Washington Post, March 10, 1981.

the Congress and the President must weigh a variety of policy issues including who are direct beneficiaries, taxpayer accountability, federal expenditure conditions, federal tax conditions, and the distributional effects. *Table 1* summarizes how each of the four major turnback methods would fare under these concerns.

Direct Beneficiaries of Turnbacks

The direct beneficiaries of tax turnbacks, those having the most control over the ultimate use of resources turned back, can be states, local governments or taxpayers, depending on the option.

Revenue sharing or tax sharing can provide funds for either state or local governments, or both. Under conditional relinquishment of a federal tax, states would get the resource turnback if they enact an eligible pick-up tax. But because the federal government does not have a tax to relinquish that local governments are generally authorized to use, a conditional relinquishment of a federal tax cannot be made to local governments. If the federal government unconditionally relinquishes a tax, taxpayers get the benefit unless another government steps in and picks up use of that tax.

Taxpayer Accountability

The only option which provides direct and complete taxpayer accountability is unconditional relinquishment of a federal tax—if states or local government want to fund responsibilities turned back, they will have to bear the pain of taxing their resources.

Federal Expenditure Conditions

Of all the turnback techniques, the General Revenue Sharing approach lends itself most readily to the attachment of federal expenditure conditions, such as the nondiscrimination provisions that have been added to the current federal General Revenue Sharing program or potentially new requirements to maintain expenditure effort in program areas affected by cuts in federal grants. This relationship between each turnback method and the attachability of federal expenditure conditions should be a consideration in choosing the specific method.

Federal Conditions Affecting State or Local Tax Policy

Different turnback techniques also lend themselves more or less readily to the attachment of federal conditions affecting state or local tax policy such as adoption of a state income tax. If federal relinquishment of a tax is truly conditional, obviously this turnback technique has a "pick up" string attached. Simple relinquishment of a tax by the federal government on the other hand implies that no conditions are attached which affect state or local tax policy.

Distributional Effects

Another important concern in assessing various turnback approaches relates to their distributional effects. There are at least three possible distributional options: to align returned resources with returned responsibilities, to use the turnbacks as a way of equalizing resources relative to needs, or to return or leave tax resource at their

Table 1
Resource Turnbacks: A Comparative Analysis

	Direct Beneficiaries	Taxpayer Accountability	Federal Expenditure Conditions	Federal Tax Conditions	Distributional Effects
Revenue Sharing (Formula Basis)	States and/or localities	No	Probably some	No	Fiscal Equalization, Responsibility/Resource Turnback Alignment, or some of both
Tax Sharing (Origin Basis)	States and possibly ¹ localities	No	Probably none	No	Resources returned to origin; supplementary alignment payments possible but unlikely
Conditional Relinquishment of a Federal Tax (Federal Tax Credit for a Pick-up Tax)	States	Partial ²	Not likely	Yes ³	Resources returned to origin; supplementary alignment payments possible but unlikely
Unconditional Relinquishment of a Federal Tax	Taxpayers, unless states pick-up the relinquished tax	Yes	No	No	Resources returned to origin; supplementary alignment payments possible but unlikely

¹ Practical administrative considerations would argue for restricting the choice of taxes that could be shared with localities to the individual income tax.

² State governors and legislatures would have to debate and enact a pick-up tax, but taxpayers would be partly shielded from its burden because part or all of a federal tax would be simultaneously relinquished.

³ A condition that states enact a pick-up income tax would run afoul, at least temporarily, of state constitutional prohibitions against income taxes in two states.

place of origin. We have labeled these three options as close responsibility/resource turnback alignment, fiscal equalization, and return to origin.

Close Responsibility/Resource Turnback Alignment. Those states and localities that are heavily dependent on federal grants that would be cut, or that would fare badly under a resource turnback scheme, or both, will call attention to the mismatch between their added responsibilities and resources turned back. They will urge measures to align returned resources with returned responsibilities, either by selecting a fiscal turnback technique that minimizes mismatch or by the unconditional granting of supplementary payments to preserve fairly close alignment.

Fiscal Equalization. Others will advocate a fiscal turnback that more broadly addresses the issue of fiscal disparities; that is, lack of a close fit between public sector needs and resources at the state and local levels. The federal revenue sharing techniques now in use could be augmented to provide for greater equalization of resources relative to needs—the “Robin Hood” approach. This broader equalization approach would not necessarily guarantee against specific mismatches caused by a program turnback package. However, if a turnback involved cuts in a large number of smaller grants or in broadly distributed grants, chances are good that a General Revenue Sharing formula could compromise between responsibility/resource alignment and equalization.

Return to Origin. A third outlook on the distribution issue is that resources tapped up to now by the federal government should be returned to their place of origin. This view presumes that the purpose of a turnback package is not just to undo the cumulative centralization of revenue raising and program direction at the federal level. By returning revenue on an origin basis, turnbacks should also undo geographic redistributive effects of the earlier federal system. States and localities that now pay more into the federal aid system than they get back are, of course, more likely to support an origin type turnback policy and oppose the “Robin Hood” redistribution approach.

Other Considerations and Choices

In addition to these considerations, the magnitude of responsibilities to be turned back, the growth intended for turned-back resources, and the pattern of fiscal mismatch must be considered. Once a major turnback technique is picked, further choices can include which tax could be relinquished, or at what rate; what formula could be used for revenue sharing; and up to what limit could federal tax credits for a state pick-up be allowed.

Based on past experience with federal revenue sharing, it is clear that when fiscal resources are turned back by act of Congress, that act can in turn be changed or even repealed. State and local governments will have to consider alternative turnback techniques in light of their likely reliability and stability. Tax sharing may be more easily safeguarded than revenue sharing. Tax relinquishment techniques are more likely to skirt the recurring processes of Congressional re-authorization and appropriation—a plus factor for reliability and stability.

It is also essential that the turnback package selected be understandable to the public. For example, state government would certainly have difficulty enacting a pick-up tax unless the public clearly understands the nature of the package—a federal return of responsibilities as well as relinquishment of a tax.

“It is also essential that the turnback package selected be understandable to the public.”

Tax Room for States and Localities

Giving states and local governments tax room by holding down the rise in the general level of federal taxes, or by not tax preempting economic growth, can be distinguished from explicit turnbacks of tax sources. The post-war fiscal record suggests that this is an important distinction and that the nonexplicit making of tax room is of questionable practical value to state or local governments. Although the federal and subfederal levels fish in the same tax pond, there is little evidence that on a nationwide basis, the incremental activity of one level directly affects that of the other. Periods in which state-local and federal tax levels moved together occur just as frequently as cases in which they appear to substitute one for another. Especially noteworthy is the 1961–63 interval in which there was a simultaneous tax pause at both the state-local and federal tax levels.

Paradoxically, the case for explicit resource turnbacks—revenue, tax sharing, or relinquishment of a federal tax—becomes stronger during periods of federal tax retreat. Otherwise, state and local officials will fear that attempting to fund increased responsibilities will be seen as wresting morsels of tax relief given by the federal government away from the hungry taxpayer. This is especially true when the federal tax relief is promoted as absolutely necessary to spur a national economic recovery. Under such circumstances, widespread state action to increase taxes would be interpreted as undercutting a clear-cut federal objective of stimulating the economy. In the recent past, state and local officials felt the new popular demand for cutbacks before it was electorally felt at the federal level. Thus, both their natural instincts for political survival and a concern for cooperative federalism predispose that cutbacks in federal grants will result in program cutbacks.

Fiscal Turnback History

The federal government has had experience with several turnback options, notably tax credits, other attempts to relinquish taxes, and General Revenue Sharing. The only experience with matching turnback—both responsibility and resources—resulted from the work of the Joint Federal-State Action Committee nearly 25 years ago.

The Joint Federal-State Action Committee

In 1957, President Eisenhower established a Joint Federal-State Action Committee whose mission was to find both federal functions and tax sources which could be returned to the states so that the states could pay for the newly assumed responsibilities. The governors enthusiastically approved the plan, and a committee of ten governors and seven executive branch members was set up.

Some of the governors' initial enthusiasm waned as it became more and more difficult to reach agreement on

which programs states would be willing to take back. For example, Gov. McKeldin of Maryland vetoed the turnback of the school lunch program on the grounds that it would put the states squarely on the spot with respect to parochial schools. Another governor led the successful opposition to turnback of the old age assistance program because "this was not time to rock the welfare boat."

After long consideration, the Committee found and recommended only two grant programs for transfer from the federal to state operations—vocational education and municipal waste treatment. To pay for this transferred responsibility, the members of the Committee recommended a federal tax credit for a state tax imposed on local telephone calls.

Morton Grodzins succinctly summarized some of the subsequent reaction:

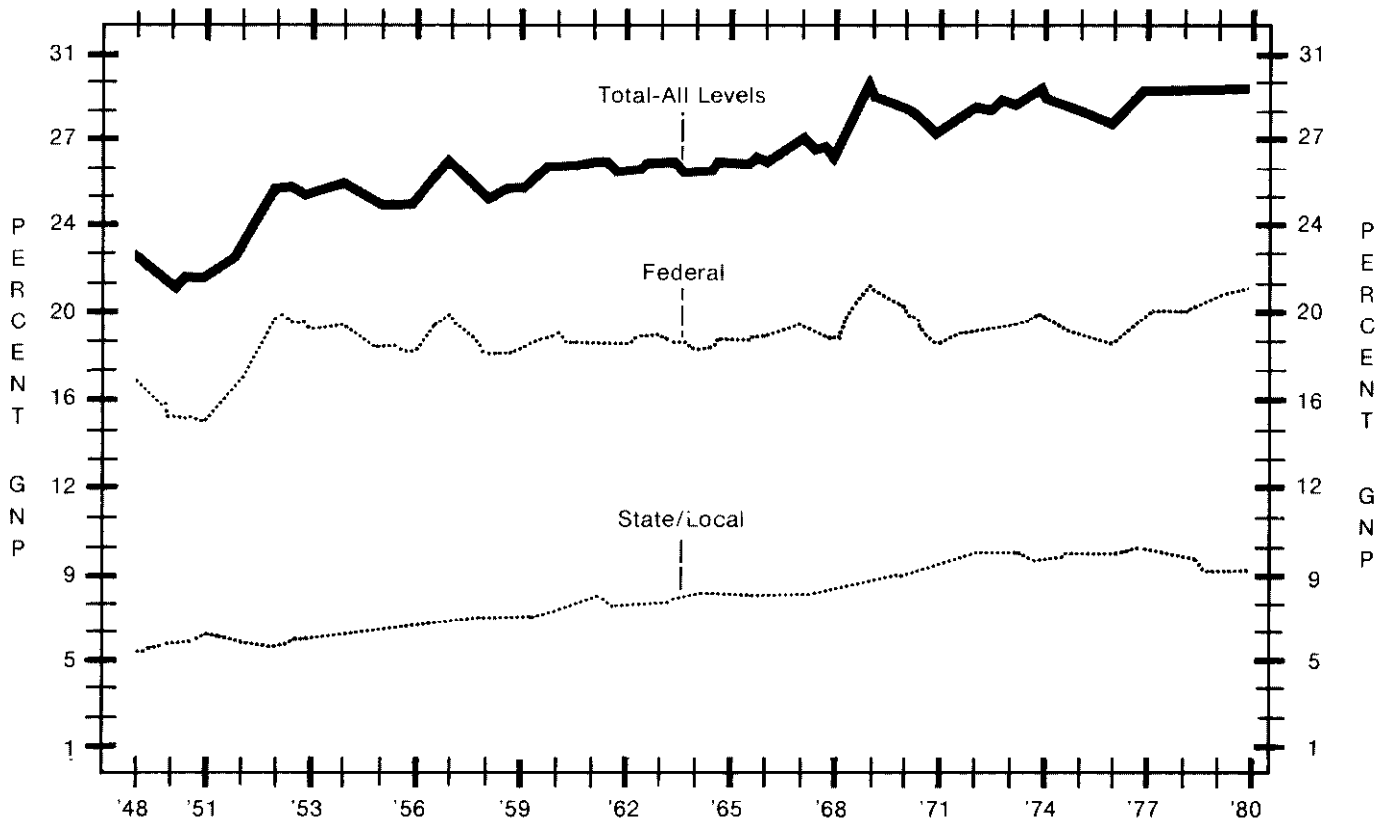
This (tax) credit device was strongly criticized by many governors and by a governors' conference resolution at the 1958 Miami meeting. The simple 4% credit more than offset the cost of the functions to be assumed by the wealthier states; but in the poorer states, it came to considerably less than the sum of the vocational education and sewerage disposal grants. With the tax credit, then, the rich would get richer, and the poor poorer.

Consequently, the Committee altered its recommendation so as to allow equalizing grants to poorer states: the upshot was a recommendation which, if implemented, would have given every state at least 140% of what it was receiving at the time for vocational education and sewerage disposal. Under equalization, then, all states would be more equal than they were and some states would be still more equal than others: New York, for example, would get from the tax credit more than double what it has been getting from the two grant programs.²

The Committee's product was never seriously considered by the Congress and was soon shelved. Thus, this attempt at enacting a turnback package was hobbled by a variety of factors including the difficulty in securing agreement on what programs should be a state-local rather than federal responsibility, the problem of winners and losers because most fiscal resources could not be easily matched with returned responsibilities, the absence of a feeling of urgency in the Congress in favor of decentralization, and a lack of enthusiasm for giving up federal resources on a large scale, in spite

² Morton Grodzins, "Centralization and Decentralization: The Failure to Unwind The System." *The American System*, Rand McNally & Co., Chicago, IL, 1966, pp. 307-31.

Figure 1
FEDERAL AND STATE/LOCAL TAXES AS A PERCENT OF GNP



Sources: ACIR Staff Computations; *Economic Report of the President, January, 1981*; *The Budget of the United States Government, Fiscal Years 1970, 1979, and 1981*.

of the revenue strength of the federal compared to state-local governments.

Federal Tax Credits for State Pick-up Taxes

There have been two major experiences with federal credits offered for state enactment of a "pick-up" tax, although in neither case was the intent to shift responsibility for existing programs from the federal to state level. In 1926, the federal government offered a 100% estate tax credit for up to 80% of the federal estate tax liability. The federal government had considered vacating the estate tax field and leaving it to the states, but most states instead advocated the pick-up tax approach so they could be protected from interstate competition for wealthy residents. Since 1926, the effect and usefulness of the credit has steadily dwindled because the federal government increased its use of the tax but left in place the 80% cap, stated in terms of the 1926 rates.

In 1935, the federal government offered a 90% credit for a tax enacted by a state to finance an "approved" state unemployment compensation program. States acted quickly to set up their programs, in some cases by calling their legislatures into special session. The Roosevelt Administration viewed the measure as a compromise, establishing national unemployment coverage while offering a great deal of state flexibility and protection from harmful interstate tax competition. However, this federal tax credit is still cited as an example of a highly coercive federal action.

A future federal tax credit might, but need not be, made contingent on both the pick-up of a particular tax and use of its proceeds for a particular purpose. However, the 1935 precedent of attaching both tax and expenditure conditions to tax relinquishment seems inconsistent with the President's decentralization goals.

Other Episodes in Federal Tax Relinquishment

In 1951, the Congress repealed an electrical energy tax. Although state and local governments had urged that this tax be relinquished for their use, the tax was not picked up. The same was true for reductions in the federal excise on amusement tickets during the 1960s. Factors that made these taxes unattractive to the federal government were likewise important to state and local governments—as they were reminded by interests affected by the tax. States and localities also were worried about getting out of tax step with their neighboring jurisdictions.

There was one fairly successful instance of tax relinquishment and assumption at the state levels. The present state excise tax system was essentially established in 1965 when a number of minor federal taxes were eliminated, including the federal stamp tax on realty title transfers. At the request of the ACIR and the states, Congress delayed the effective date of the repeal to give states time to enact a replacement tax. Many states did take this opportunity, but as much in order to continue the flow of information used in property tax administration as to gather revenue.

General Revenue Sharing

We have a federal General Revenue Sharing program currently in place and there are many reasons why state-local governments might be expected to favor this turnback device. They have fought for the program in the past, and it is a method of both directly transferring resources to them and attending to the fiscal mismatch problem. However, their actual experience with the program causes

state-local governments to have some serious misgivings.

Appropriations for the General Revenue Sharing program remained at about the same level from January 1973 through October 1980, while the eroding flood of inflation raised the prices of goods and services purchased by state and local governments by over 80%. Congress has thus used inflation to cut the real value of resources turned back by 45%. Furthermore, revenue sharing has become an imperiled species, saved from extinction last year, but only by amputation of state governments. Funding was cut one-third as state governments were excluded from the new three-year entitlement.

The program has become politically weak in Washington because of the dilemma posed to Congress between decentralization and accountability. On one hand, Congress has been encouraged to share revenue so that decisions can stay decentralized, but on the other hand, Congress has not been comfortable with this act of power sharing. It is difficult for members to release federal dollars without control or evidence that particular national purposes are being served. It is especially difficult when opponents of the program argue that because the federal government lacks the revenue to balance its own budget, it really has nothing extra to share.

Their experience with General Revenue Sharing may lead states and localities to ask for new revenue sharing safeguards, if not an entirely fresh start, when resource turnbacks are considered. They would like a minimum safeguard of a permanent trust fund replenished annually by a set portion of federal revenues or a major federal tax, and annual proceeds distributed by formula without periodic Congressional reauthorization or appropriation.

Barriers To Turnbacks

There are three major barriers standing in the way of turnback packages: the fiscal alignment problem, fiscal constraints, and political difficulties.

The Fiscal Alignment Problem

The fiscal alignment or mismatch problem plagued past turnback proposals and is a problem today. Unless special safeguards are employed, some states would gain resources, and others would lose under most packages of grant cuts and resource turnbacks. If turnbacks increase taxpayer accountability, the test of accountability will be far more stringent in hard-pressed jurisdictions than in the others that can replace lost federal grants with minimal taxpayers pain.

This winners and losers problem stems from the fact some states and localities are much more dependent on federal aid than others. Some, often the same jurisdictions, are much below the norm in their ability to finance an increased responsibility. This diversity creates the "mismatch" when the burdens from increased responsibilities are compared to financing ability. Use of direct payments to align resources turned back with responsibilities does, however, compete with the other distribution approaches, especially return to origin.

The scope and diversity of this fiscal mismatch is illustrated by *Table 2* which compares states' relative dependence on education aid, for example, with types of tax sources that might be shared or relinquished by the federal government. Education grants were singled out for purposes of illustration and because education is among the front rank candidates for turnback. The potential "winners" and "losers" from a package of grant

Table 2
Interstate Variations in Per Capita Dependency on Federal Educational Aid, and Tax Capacity
(100 Index is Average)

State and Region	(1) Relative Dependence on Federal Educational Aid, ¹ 1979	(2) Relative Income Tax Capacity, 1979	(3) Relative Cigarette Tax Capacity, 1978-79	(4) Relative Alcoholic Beverage Tax Capacity, 1978-79	(5) Relative Motor Fuels Tax Capacity, 1978-79	(6) Relative Estate Tax Capacity, 1978-79
New England						
Connecticut	78	134	89	116	83	154
Maine	132	66	105	101	95	75
Massachusetts	95	98	90	120	78	89
New Hampshire	104	98	191	246	89	92
Rhode Island	122	87	112	107	78	97
Vermont	131	72	121	141	100	80
Mideast						
Delaware	201	110	115	125	98	83
District of Columbia	455	130	101	292	57	91
Maryland	119	115	100	131	87	85
New Jersey	76	118	94	105	86	92
New York	92	98	95	112	62	120
Pennsylvania	69	96	93	71	86	82
Great Lakes						
Illinois	81	121	103	110	91	142
Indiana	61	100	113	74	109	105
Michigan	81	110	107	96	96	87
Ohio	64	103	100	69	98	84
Wisconsin	128	91	88	117	97	74
Plains						
Iowa	74	95	94	67	118	153
Kansas	89	100	95	68	119	137
Minnesota	89	94	89	109	107	70
Missouri	82	92	107	74	112	101
Nebraska	151	90	88	83	115	168
North Dakota	187	79	92	104	136	105
South Dakota	188	69	89	97	138	93
Southeast						
Alabama	121	68	92	77	109	55
Arkansas	120	63	97	53	117	47
Florida	76	101	100	140	105	154
Georgia	258	80	99	108	118	65
Kentucky	100	75	163	71	102	62
Louisiana	103	88	105	97	105	65
Mississippi	140	57	93	80	105	35
North Carolina	98	74	150	82	108	56
South Carolina	124	68	103	108	111	54
Tennessee	83	79	96	68	115	132
Virginia	110	98	115	88	102	77
West Virginia	88	79	92	72	92	49
Southwest						
Arizona	174	92	91	106	116	77
New Mexico	231	76	75	81	132	66
Oklahoma	108	87	107	79	129	102
Texas	94	109	94	80	128	106
Rocky Mountain						
Colorado	110	107	96	121	106	77
Idaho	138	72	87	71	118	75
Montana	205	80	91	95	131	83
Utah	115	72	57	51	105	37
Wyoming	145	125	121	119	184	90
Far West						
California	81	111	91	122	98	126
Nevada	126	139	131	307	142	316
Oregon	84	98	111	90	112	69
Washington	80	118	74	105	98	89
Alaska	730	154	104	143	99	36
Hawaii	183	102	67	119	67	107

¹ Excludes higher and Indian education aid and nutrition related aid administered by school districts (school lunches); includes grants to state and local governments for primary, secondary, and vocational education and federal impact. The total was \$5.8 billion.

Sources: Selected Department of Education Aid to States, *Federal Aid to States, Fiscal Year 1979*, U.S. Treasury Department; Income Tax: U.S. Department of the Treasury, Internal Revenue Service, *Statistics of Income, 1979 Income Tax Returns, Preliminary*; Cigarette Tax: Cigarette Sales in Packs, *The Tax Burden on Tobacco, Historical Compilation*, Tobacco Tax Council, V. 13, 1978; Alcoholic Beverage Tax: Wine Gallon Equivalent Spirits Sales, *Annual Statistical Review*, Distilled Spirits Council of the U.S., 1979; Motor Fuels Tax: Department of Transportation, Federal Highway Administration, *Motor Fuel Use-1979*, Table MF 21; and Estate Tax: Federal Estate Tax Liabilities Before Credits, *Statistics of Income, Estate Tax Returns*, Internal Revenue Service; ACIR computations.

cuts and fiscal turnbacks vary, and for no one tax source is there good alignment between states' grant dependency and relative tax capacity. Differences can be great even within the same region. For example, Connecticut has only 78% of the average per capita dependence on education grants compared to 134% of the average per capita income tax capacity. This means that for every dollar per person of education grants cut, Connecticut loses only 78 cents, while for every dollar of income tax shared or relinquished, Connecticut gains 134 cents. Maine, on the other hand, would lose 132 cents for every dollar of education grants cut, while gaining only 66 cents per dollar of income tax shared or relinquished.

These potential mismatches occur under any tax source. Maine has no tax source that gives it as much in relative resources as do education grants. The state of Utah is not as dependent on education aid as Maine, but still has no equally large tax capacity. Utah would be particularly disadvantaged under a cigarette or alcoholic beverage tax turnback; it has only 57% and 51% respectively of the national average for these taxes. The District of Columbia is extremely dependent on education grants, 455% of the average, but has only 57% of average per capita motor fuels tax capacity. New Hampshire, at the other extreme, has 191% and 246% of the averages for cigarette and alcoholic beverage tax capacities compared to about average educational grants dependency.

The significance of the mismatch problem does depend on what grants would be cut and what taxes were shared or relinquished, and on the scale of the potential turnback plan. Mismatches per dollar of categorical grants eliminated may be relatively large but would have only a slight fiscal effect on states' overall relative fiscal standing if the total turnback package were small relative to total state-local budgets. For example, any further cuts in the Administration proposed \$86 billion in grants, coupled with a return of resources, should be compared to state-local own-source revenue effort that will exceed \$250 billion.

The potential for mismatch is far more severe for turnback packages that would affect local governments—unless revenue sharing is used as the fiscal turnback device—

since variation in local dependency on federal grants and access to tax bases is extreme. Unless the state government can be relied on to adjust the impact of mismatch among localities, low-resource, high-aid dependent localities will be injured by a turnback package.

The Fiscal Barrier

The federal government is now committed to rapidly rising defense and social security expenditures, tax cuts, and an end to heavy deficit financing. To put it mildly, the federal government has entered a period of sustained fiscal stress. In spite of budget cuts already proposed by the Administration for FY 1982, the longer-range budget targets cannot be met without making large additional budget cuts for 1983 and 1984.

Since both Congress and the White House will be attempting to balance the federal budget, it will be impossible to cut federal grants and yet provide enough of a resource turnback to hold states or localities "harmless" from any overall loss of federal funds. At least for several years, the savings to the federal government from categorical grant cuts must exceed the new federal revenues, shared tax sources, or tax room provided to support state or local expanded responsibilities. The federal government may be unwilling to share a rapidly growing federal tax source; state and local governments want protection from a fiscal turnback with the opposite characteristic, of little or no growth.

Ironically, because the federal government is no longer the fiscal strongman it was in the 1950s, a turnback package may be more politically feasible today. If state and local governments are convinced that in the 1980s, grants will be subject to slow strangulation with little easing of federal controls or mandates, their willingness to accept significantly less than one hundred cents for each dollar of withdrawn grants may increase.

Political Barriers

A turnback package cannot be put together on the program side without agreement on what responsibilities

Table 3
Tax and Program Turnbacks: Three Illustrations

Size of Turnback ¹	Possible Grants Eliminated	Possible Taxes For Sharing or Relinquishment ⁴
\$47 billion	All grants directly for governments (excludes grants through governments for individuals) ²	Approximately 16% of the individual income tax
\$20 billion	All block grants proposed by President Reagan ³ plus highway grants except for interstate system	Approximately 7% of the income tax; or alcoholic beverages and beer (\$5.8 billion), tobacco (\$2.6 billion), motor fuels (\$4.4 billion), and estate and gift (\$7.7 billion) taxes
\$10 billion	Education block grants plus highway grants except interstate	Alcoholic beverages and beer, and motor fuels tax

¹ Amounts based on FY 82 budget requests, other FY 82 budget projections, and ACIR staff computations.

² Grants for individuals are Medicaid, Aid to Families with Dependent Children, nutrition assistance, housing subsidies, and several smaller grant programs.

³ Block grants are proposed for social services, education (2), energy and emergency assistance, health (2), and community development (including UDAG).

⁴ Revenue sharing can be used with any turnback package.

Source: ACIR staff computations

should be turned back—which grants should be eliminated. Securing agreement will not be easy. Those served by grant programs have fought for the funding as well as the complex network of federal controls and incentives attached to them. Although many governors have called for a stronger state role, new responsibilities in politically controversial or difficult fiscal areas, like Medicaid, may not be warmly welcomed. Local governments which have become comfortable and accustomed to working with Washington, or at least well adapted, are apt to be chary of strategies that would necessitate future appeals to statehouses rather than to Washington.

There are also a number of sharp political problems on the fiscal side. First, the issue of federal control would have to be fought out again in terms of debate over the federal strings to be attached to any resource turnback; federal requirements could range from nondiscrimination provisions of the variety now used in General Revenue Sharing, to requirements that fiscal effort be maintained in program areas in which federal grants are being cut.

Next, attitudes on the distributional issue (alignment, equalization, or return to origin) will clash. State-local governments' concerns for direct access to resources, and for reliability will collide with each other and with state-local desires for protection from federal strings and controls. The interests of states and localities will confront the preferences of some fiscal conservatives in the Administration and Congress who object to any form of federal tax relinquishment or sharing because of federal fiscal problems. Some fiscal conservatives will argue that it is sufficient for the federal government to help improve the economy and hold down the increase in federal taxes while federal grants to state and local government are cut. Furthermore, the argument will be that this approach maximizes accountability—in order to continue programs, state or local government will have to go to their taxpayers—and will do the most to cut back on government at all levels. Federal tax credits for pick-up taxes may be regarded as too coercive.

Turning To Turnbacks

In 1957 when the federal aid system was just a minor league operation—only 50 programs amounting to \$4 billion—neither state and local governments nor the Congress foresaw federal grant proliferation and the attendant complexity and confusion over who is in charge as a major threat to our federal system. Now that the federal grants systems has clearly hit the big time with over 600 programs costing some \$90 billion, along with a highly confused set of federal controls and conflicting incentives—there is definitely greater state-local support for a judicious pruning of the grants system. In Washington, the reduction sentiment has been strengthened by fiscal stress at the federal level. The turnback approach is one way to streamline the grant system and yet retain some sense of fair play. For if states and localities are to be expected to assume responsibilities inherent in eliminated federal programs, resource turnbacks will be needed.

Many feel that if there was ever a time for adoption of a comprehensive decentralization package—including revenue or tax turnbacks—that time is now. State and local governments could see the turnbacks as some compensation for reduced grants-in-aid. The Administration seems clearly committed to the proposition. And the Congress, never enthusiastic about decentralization efforts, appears far more receptive to Presidential leadership than for

many years, and may well be persuaded to try the idea.

The Administration's block grant proposals provide both a logical and political stepping stone from categorical grants to turnbacks. If Congress accepts block grants with minimum federal control, in the future they may be more likely to accept elimination of federal expenditure controls via a turnback package. Indeed, Congress might then prefer to relinquish resources unconditionally rather than be pressured to account for and influence the use by state and local governments of block grant funds.

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Budget Balancing and Intergovernmental Relations

As spring fades into summer, efforts to reduce spending continue to dominate the news from Capitol Hill and the Executive Branch. Passage of the joint House-Senate 1982 budget resolution, calling for roughly \$36 billion in cuts to existing federal programs, capped several months of activity in both branches.

Now House and Senate committees have until mid-June to draft legislation cutting programs in their jurisdictions as part of the reconciliation process—an effort which will probably prove both difficult and divisive. As House Budget Committee Chairman James Jones (OK) said, "The time for fun and games for the budget process is over."

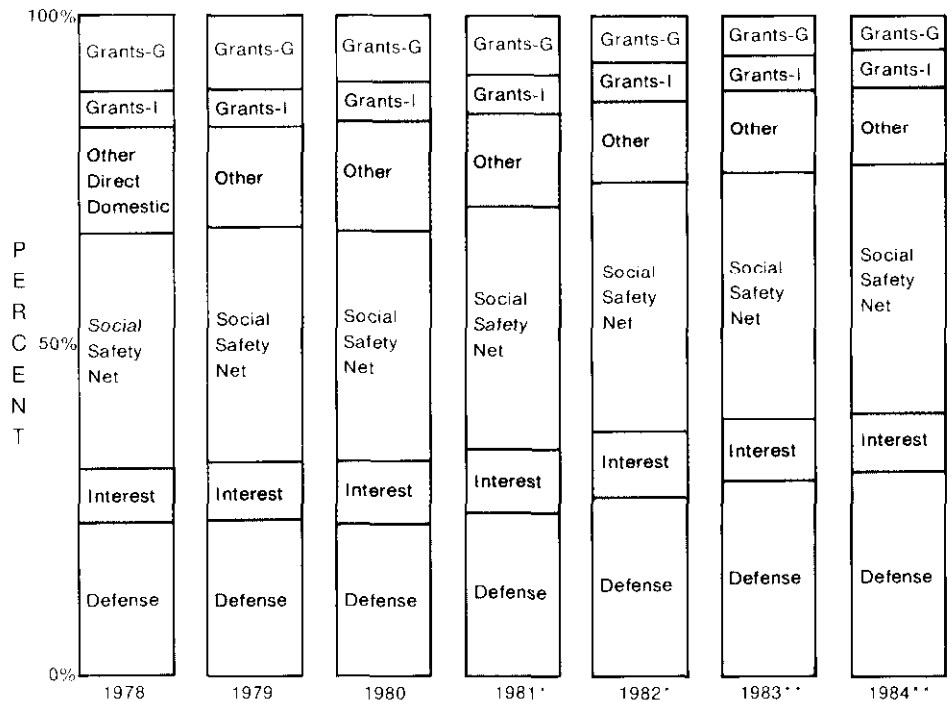
One of the most likely targets of cuts is an area near and dear to the hearts and pocketbooks of states and localities—federal aid.

Federal Aid to States and Localities: "An Attractive Target"

On February 18, 1981, the same day as the President's economic message to the country, another message was sent out by Sen. David Durenberger, the new Chairman of the Senate Intergovernmental Relations Subcommittee. He said: "If I were a governor or a mayor, I would be troubled by the size of the price tag on the intergovernmental system. It is an attractive target."

A brief look at the FY 1981 budget suffices to explain why state and local aid is such an appealing target to those trying to trim federal spending. Approximately half of FY 1981 federal outlays are dedicated to individual benefit programs including the newly defined "social safety net" of programs for the elderly, disabled, veteran, short-term unemployed, and "truly needy" families. National defense and interest payments on the federal debt account for an additional 25% and 10%, respectively, of total outlays.

The Squeeze on Grants to State and Local Governments
Past and Proposed Shifts in the Composition of the Federal Budget



*"Grants-G" refers to grants for governments.

**"Grants-I" refers to grants to governments primarily for direct individual payment programs.

* Administration Budget Proposals.

** Administration Budget Projections. Intended but as yet unspecified budget cuts were allocated proportionately among all categories except interest on the debt.

Source: ACIR Computations; Appendices to the Budgets of the United States, FY79, FY80, FY81; FY82 Budget Revisions; and Federal Government Finances, March 1981 Edition. Note: Composition based on budget outlays; "social safety net" amounts for 1978 and 1979 were tallied by using the same programs as designated for this category by the new Administration in 1981.

If the size of the federal pie is to shrink while defense spending is increased and other areas—the "safety net" programs—are granted relative immunity from cuts, something has to go. It is then not surprising that the 14% of the Carter proposed budget that was devoted to financial aid to state and local governments is slated to absorb nearly one-third of the FY 1982 Reagan budget cuts.

Grants to states and local governments comprised 15.8% of the federal budget in 1980, down from their recent historical peak of about

17.3% in FY 1978. Under the Administration's proposals, federal intergovernmental aid would slide more steeply—in FY 1982 it would make up 12.4% of federal outlays and, in FY 1983, 11.9% or less depending on as yet unspecified future cuts.

In real terms—that is, when federal intergovernmental aid is adjusted for inflation—the drop is more dramatic. Between FY 1980 and FY 1982, the real purchasing power of federal grants would decline by 20.7% (assuming the Administration's forecast of a two-

year inflation rate of 19%). Had a 20.7% cut in grants been made in 1978-79, the latest year for which state-local tax data is available, ACIR estimates that state and local governments would have had to raise taxes by about 8% if they had wanted to replace lost aid dollar-for-dollar.

Federal intergovernmental aid really should be divided into two parts to assess the impact of proposed cuts. There are basically two types of federal grants that go to states and localities: those intended primarily to finance income maintenance or welfare-type benefits to in-

dividuals (including Medicaid, Aid to Families with Dependent Children, child nutrition, subsidized housing and housing projects) and those that are more directly under state and local government control (CETA public service jobs, mass transit, public works, and community and regional development assistance, to name a few).

Under the Reagan proposals, payments for individuals which go through states and localities, \$34.2 billion in FY 1980, are projected to rise to \$39.4 billion in FY 1981 and then fall to \$39.1 billion in FY 1982. A greater burden of the pro-

posed decrease in intergovernmental assistance probably will be borne by grants going to governments. Funds in this category are slated to fall from \$57.2 billion in FY 1980 to \$54.9 billion in FY 1981 and then to \$47.2 billion the following fiscal year.

Intergovernmental Relations from the "Supply Side"

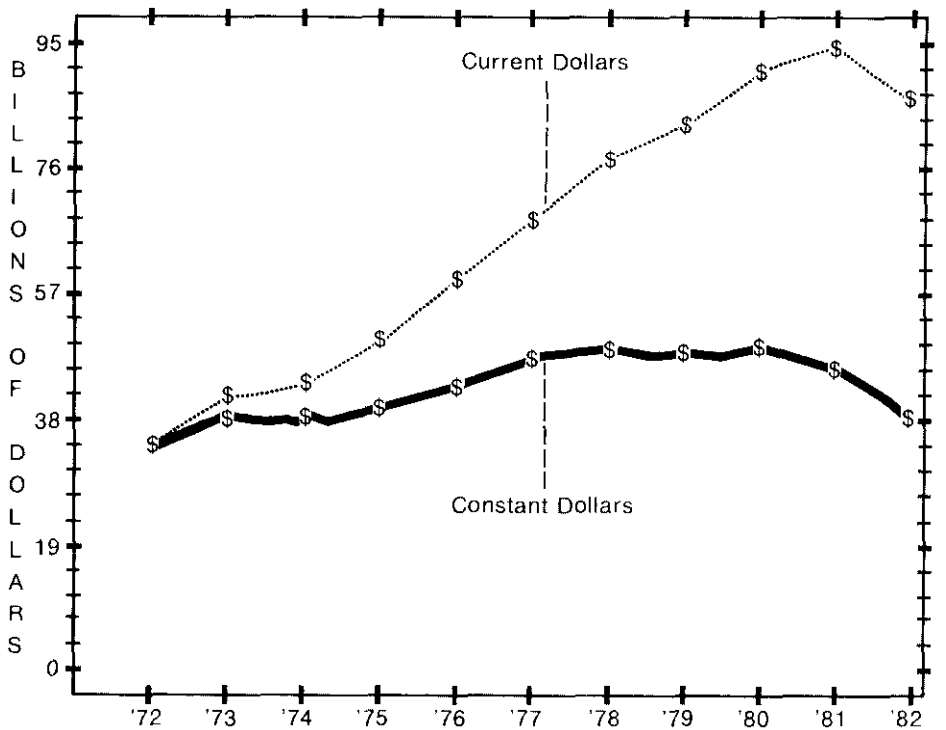
A decline in federal financial assistance, coupled with the voters' reluctance to accept higher state-local taxes, presents a dilemma to governors, state legislators, and local officials. But the squeeze on state and local governments goes beyond the problems caused by cuts in grants or Proposition 13-type limitations. A "supply side" squeeze on revenues may also ensue since many state taxes are structured on the federal tax system, thus any changes in federal taxes will also affect state and local governments. To the extent that cuts in federal taxes will spur economic recovery, the states will benefit. In the short term, however, dislocation may occur.

The results will probably be mixed. The National Governors' Association has begun to examine the impact of proposed alterations to the federal personal and corporate income tax structure. Their tentative conclusions, released in a January 1981, statement are:

Proposed changes in the individual income tax will not affect a large number of states substantially, and in the aggregate, revenue losses are likely to be offset by increased revenues in those states allowing the deduction of federal tax payments for state tax purposes. With respect to the taxation of corporate and business income, however, all states taxing such income will be affected in a fairly substantial manner by proposed changes in depreciation allowances, with the potential state revenue loss ranging from \$5-10 billion in 1985.

Stephanie Becker
Albert Davis

**Grants to State and Local Governments
Current Dollars and Constant 1972 Dollars**



Source: Historical data and Administration Budget Proposals from "Federal Government Finances," March 1981 Edition, Tables 9 and 10, Office of Management and Budget, Budget Review Division and ACIR staff computations.

James Watt Named ACIR Chairman, Six Other New Members Named

In the first four months of 1981, seven new members have been named to the Advisory Commission on Intergovernmental Relations, including a new chairman.

James G. Watt, Secretary, Department of the Interior, was named chairman of ACIR by President Reagan to replace Abraham D. Beame of New York City who resigned in March. The other two federal Executive Branch members are Samuel R. Pierce, Jr., Secretary of the Department of Housing and Urban Development, and Richard S. Williamson, Assistant to the President for Intergovernmental Affairs.

Senator David Durenberger of Minnesota was named by the President of the Senate to serve as one of three Senate members on the Commission. Two Senators were reappointed: Senator William V. Roth, Jr., of Delaware and Senator James Sasser of Tennessee.

Former President Carter named three new members to the Commission and reappointed two current members in January. Newly named were Gary (IN) Mayor Richard Hatcher; Representative Richard Hodes of Tampa (FL), Majority Leader of the Florida House of Representatives, and Eugene Eidenberg of Washington, DC, appointed to one of three private member slots. Arizona Governor Bruce Babbitt and Colorado Senate President Fred Anderson were reappointed.

The Commission's enabling legislation calls for the President to name three private citizens and three cabinet officials. The Congressional leadership selects the three Senators and three Congressmen. The four governors, four mayors, three state legislators, and three county officials are selected by the President from nominees submitted by national interest groups representing those state and local officials. The President names the chairman and vice chairman from the Commission membership.

ACIR members serve for two-year terms and may be reappointed.

ACIR Reviews Upcoming Research, Delays Multijurisdictional Action

In its April 22-23 meeting, the Advisory Commission on Intergovernmental Relations, under its new chairman, Interior Secretary James Watt, discussed a variety of key intergovernmental issues, including state energy taxes, and heard a top Reagan Administration official pledge to improve the intergovernmental partnership, using ACIR as a "valuable sounding board" and source of ideas.

White House Counsellor Edwin Meese III told the Commission the President keenly appreciates what ACIR is and can do. He referred to the two years the President served on the Commission as Governor of California and said the White House looks to the Commission as an "important point in the development of improved relationships between federal and state and local government."

Too much power has "percolated" up to Washington, Meese said, "where there has been an unnecessary usurpation of state and local authority." He promised that over the next four years, more responsibility would be turned back to state and local government, along with the revenue sources to pay for it.

Following the Meese presentation, the Commission heard staff reports on studies underway on state energy taxes, revenue and tax turnbacks, and updates on recent Commission work on block grants and grant terminations and possible federal-state tradeoffs of certain functions and responsibilities.

The Commission considered, and postponed, decisions on recommendations relating to state taxation of multijurisdictional firms. A hearing was held on this issue in January 1981.

ACIR Testifies before Congress on Federal Role, Grant Reform

ACIR members and staff testified recently before Senate and House Intergovernmental Relations Subcommittees and the Senate Governmental Affairs Committee on a va-

riety of issues including the future intergovernmental agenda, the condition of American federalism, and grant reform.

On February 25, ACIR Vice Chair Lynn Cutler and Columbus (OH) Mayor Tom Moody outlined for the Senate Intergovernmental Relations Subcommittee the major intergovernmental issues of the 1980s and ACIR's involvement in them.

Black Hawk County (IA) Supervisor Cutler briefly described the Commission and summarized its recent research into the federal role in the federal system which concluded that the federal government's activities have become more pervasive, more intrusive, more unmanageable, more ineffective, more costly, and above all, more unaccountable.

Need for "decongesting" the federal system will continue to dominate the intergovernmental agenda of the 1980s, she said. Other items which will doubtless play a key role in the 1980s are an increase in interstate and regional competition, thanks in large measure to the ability of some states to tax natural resources; the problems of cities and urban counties; the courts and intergovernmental relations; and the impact of the fiscal bind of the 1980s on the intergovernmental system.

Mayor Tom Moody, testifying on behalf of the National League of Cities and the ACIR, emphasized the need for Washington and states to recognize the cities' ability to deal with local problems and ensure the necessary authority and program flexibility.

The federal role in the federal system was also a focus of testimony before the House Intergovernmental Relations Subcommittee April 7, when ACIR Assistant Director David Walker described for the subcommittee what he called the "rather fanciful form of federalism that has emerged," over the past two decades.

He outlined ACIR's reform strategy designed to help American federalism of the 1980s acquire the

workability and flexibility it lost during the 1960s and 1970s. At their cornerstone, ACIR recommendations encourage a "trade-off"—a better assignment of governmental functions than that which now prevails. Certain fundamental social welfare functions should be fully federal with others becoming primarily or solely state, local, or privately funded. Many of the remaining federal-state-local aid programs should be more rationally structured and related grants should be consolidated.

In the April 7 session and a continuation hearing on April 30, ACIR Executive Director Wayne Anderson and Assistant Directors John Shannon and Carl Stenberg joined Walker in answering questions from the Subcommittee about the federal role study and related ACIR work.

Grant reform legislation was the subject of testimony presented before the Senate Intergovernmental Relations Subcommittee on April 22, by ACIR Assistant Directors Carl Stenberg and David Walker.

Speaking to two bills, S. 45, the "Federal Assistance Reform Act of 1981," and S. 807, the "Federal Assistance Improvement Act of 1981," Stenberg and Walker said the measures would "go a long way toward improving the design and implementation of federal assistance and reducing the high overhead costs, paperwork burdens, and administrative headaches that have been associated with grants-in-aid in the past." Both measures contain provisions which would carry out a number of ACIR recommendations to improve the intergovernmental grant system.

The two were strongly supportive of the first four titles of both bills which cover the same general areas: consolidation of federal assistance programs, financial management and audit of federal assistance programs, joint funding, and the administration of generally applicable federal assistance requirements. In several instances, specific provisions in S. 807 were cited as different from, and preferable to, S. 45.

For example, Title V of S. 807 provides a potentially significant approach to improving the effectiveness and efficiency of federal assistance programs by authorizing applicants to submit a plan for transferring funds among various programs in a subfunctional category by up to 20% of the amount it received in the base fiscal year for the covered program. Stenberg and Walker pointed out that "such flexibility could well be crucial if proposed block grant legislation in functionally related areas has not passed by the end of the fiscal year and recipients are confronted with a fewer funds, same strings dilemma."

The Subcommittee was also encouraged to adopt various miscellaneous amendments contained in S. 45 and S. 807, including adoption of a single state agency waiver, standardization of maintenance of effort requirements, and clarification of the federal position concerning state legislative role in the application and acceptance of federal assistance.

ACIR Assistant Director John Shannon described recent staff work on fiscal capacity, or the revenue generating power of a government, to the Senate Intergovernmental Relations Subcommittee on May 13. Shannon told the Senators that per capita income, the most commonly used measure of fiscal capacity in federal aid formulas, understates the revenue generating power of the mineral-rich states and overstates the tax wealth of states with relatively high personal income but relatively small property, sales, or mineral tax bases.

Over the years the Commission has developed what it calls a representative tax system as an alternative to the per capita income yardstick to measure the ability of government to finance public services. This system defines the tax capacity of a state and its local governments as the amount of revenue they could raise (relative to other states and localities) if all 50 state-local systems applied the identical tax rates to their respective tax bases.

On May 20, ACIR Executive Director Wayne Anderson testified before the Senate Governmental Affairs Committee on S. 10, a measure to establish a "commission on more effective government." Anderson transmitted to the Committee ACIR's support for a convocation to address the current malfunctioning of American federalism and to agree upon an agenda for intergovernmental reform in the 1980s.

Without Comment . . .

"After a few months as an elevator operator, I went to work with the Advisory Commission on Intergovernmental Relations, a presidential commission on, not surprisingly, intergovernmental relations. But my coworkers and I didn't hit it off."

Rita Jenrette in *My Capitol Secrets*, Bantam Books, 1981, p. 19.

And Briefly: BOOKS

The first six publications are recent reports of the Advisory Commission on Intergovernmental Relations, Washington, DC 20575. Single copies are free.

The States and Distressed Communities: The 1980 Annual Report (M-125).

This report, a joint product of ACIR and the National Academy of Public Administration (NAPA), reviews five policy areas and 20 state activities selected as priority community assistance items from surveys of state and local officials.

One key finding was that states have begun to develop and implement a variety of fiscal and functional reforms to meet the needs of distressed urban and rural communities and have emerged as the mediator between several conflicting interlocal urban policy priorities.

However, the report notes that while states have made considerable progress in addressing the needs of distressed communities within their boundaries, few have made extensive use of the full range of powers and tools at their disposal and only a handful have developed broad and comprehensive strategies which can bring state assistance to bear on community problems in a coordinated fashion.

The ACIR-NAPA study was conducted for the U.S. Department of Housing and Urban Development.

The following three publications are part of ACIR's study entitled **The Federal Role in the Federal System.**

Intergovernmentalizing the Classroom (A-81).

In elementary and secondary education, the federal role has increased dramatically over the past 20 years in terms of both money and regulations.

Although the federal contribution to total elementary and secondary educational expenditures is only about 8%, the federal role in basic education is an important one, much more so than it was just 20 years ago. About 50 federal programs provided \$6.7 billion for elementary, secondary, and vocational education in FY 1979. Until 1950, the federal share of educational expenditures was less than 3% of the total.

The character of that involvement has changed as well with the federal government's activist posture in education much magnified with federal laws requiring increased educational access and services for the handicapped, new protections of student rights, and various protections against race and sex discrimination.

The Evolution of a Problematic Partnership: The Feds and Higher Ed (A-82).

This volume traces the federal role in higher education from land grants made to the states in the 19th Century to the formation of the U.S. Department of Education. Federal financial aid for higher education, very modest until the 1940s, skyrocketed to about \$11.75 billion in 1977, constituting about one-fifth of all funds spent by public institutions of higher learning and about one-third of total private school funds. In addition, federally imposed rules and regulations, ranging from health and safety to affirmative action, have stirred considerable controversy in higher education.

Protecting the Environment: Politics, Pollution, and Federal Policy (A-83).

Until the Water Pollution Control Act of 1948, federal involvement in environmental protection was small.

In the next two decades, however,

the federal government increased its role. Interestingly, the effect of increased federal intervention has been to increase the states' role in environmental protection. The states have been required to set standards and implement provisions of federal laws and generally they have complied. Each state now has a permanent environmental agency and it appears that environmental issues will remain a topic of national concern in the future.

State-Local Relations Bodies: State ACIRs and Other Approaches (M-124).

In 1974, the Commission recommended that the states create their own ACIRs to study and propose solutions to intergovernmental problems within the states. Since then, state and local officials have become more sensitive to intergovernmental problems and issues. The states have taken five different approaches to studying and improving intergovernmental relations: establishing an advisory committee patterned after the national ACIR, permanent legislative commissions, state departments of community affairs, temporary commissions to study state-local relations and make recommendations to the governor and legislature, and commissions on interstate cooperation.

This report discusses experience with these five types of intergovernmental advisory agencies. Information in the report was derived from two surveys of the organization, function, staffing, budget, work program, recommendations, and implementation record of these agencies. Although every state has used some type of intergovernmental agency, few have developed a consistent policy on urban development. This failure is indicative of the limitations and temporary nature of some commissions, lack of adequate state-local communication, and difficulty of reforming historic rela-

tionships between state and local governments.

Regional Growth: Interstate Tax Competition (A-76).

This report, the third volume of ACIR's series on regional development, looks at the effect of interstate competition on regional growth. The Commission found that although variations in state and local tax levels do exist, tax differences are not a major cause of regional competition for people, capital, and jobs. However, the Commission notes that within a region—and particularly between states in the same metropolitan area—interstate tax differentials can become the "swing" factor in industrial decisions. While much of the publicity over competition for industry focuses on the Frostbelt vs. Sunbelt, states within regions are frequently the fiercest competitors.

Much of the information in the report is presented in tables. A bibliography is also included.

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

Toward a Functioning Federalism, by David B. Walker, Winthrop Publishers, Inc., 17 Dunster Street, Cambridge, MA 02138. Hardcover, \$12.95; paper, \$8.95.

Explaining America: The Federalist, by Garry Wills, Doubleday and Co., Inc., 501 Franklin Avenue, Garden City, NY 11530. \$14.95.

The Municipal Bond Market: Recent Changes and Future Prospects, by John E. Petersen, Municipal Finance Officers Association, Suite 650, 1750 K Street, N.W., Washington, DC 20006.

Proceedings of the Aspen Conference on Future Urban Transportation, American Planning Association, 1313 East 60th St., Chicago, IL 60637. \$7.

Managing Federalism: Evolution and Development of the Grant-in-Aid System, by Raymond A. Shappek, Community Collaborators, P.O. Box 5429, Charlottesville, VA 22905. \$15.95.

The New Federalism, 2nd edition, by Michael D. Reagan, Oxford University Press, Inc., 200 Madison Avenue, New York, NY 10016. \$3.95.

The Politics of Federal Grants, by George E. Hale and Marion Lief Palley, Congressional Quarterly, Inc., 1414 22nd Street, N.W., Washington, DC 20037. \$7.50.

The New CETA: Effect on Public Service Employment Programs: Final Report, by William Mirengoff, et al, National Academy Press, 2101 Constitution Avenue, N.W., Washington, DC 20418. \$10.50 paper.

Urban Government Finance: Emerging Trends, Roy Bahl, ed., Sage Publications, Inc., 275 South Beverly Drive, Beverly Hills, CA 90212. \$9.95 paper.

Fiscal Stress and Public Policy, Charles H. Levine and Irene Rubin, eds., Sage Publications, 275 South Beverly Drive, Beverly Hills, CA 90212. \$9.95 paper.

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

Economic Issues of State and Local Pensions, Public Finance Department, The Urban Institute, 2100 M Street, N.W., Washington, DC 20037. \$20.

The Twin Cities Regional Strategy, by Arthur Naftalin and John Brandl, Metropolitan Council of the Twin Cities Area, St. Paul, MN 55101.

The States and Urban Strategies, U.S. Department of Housing and Urban Development, U.S. Government Printing Office, Washington, DC 20402.

ACIR Index, 1961–1979: Subject Index to the Collected Publications of the U.S. Advisory Commission on Intergovernmental Relations on Microfiche, Princeton Datafilm, Inc., Box 231, Princeton, NJ 08550. \$495, microfiche and index; \$40, index only.

Perspectives on Taxing and Spending Limitations in the United States, Charlie B. Tyer and Marcia W. Taylor, eds., Bureau of Government Research and Service, University of South Carolina, Columbia, SC 29208.

Cities Under Stress: The Fiscal Crises of Urban America, Robert W. Burchell and David Listokin, eds., Center for Urban Policy Research, Rutgers University, Piscataway, NJ 08854. \$28.50.

Value-Added Tax and Other Tax Reforms, by Richard W. Lindholm. Nelson-Hall Publishers, 325 W. Jackson Boulevard, Chicago, IL 60606. \$18.

Service Delivery in the City: Citizen Demand and Bureaucratic Rules, by Bryan D. Jones, Saadia Greenburg, and Joseph Drew, Longman, Inc., 19 W. 44th Street, Suite 1012, New York, NY 10036. \$22.50.

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