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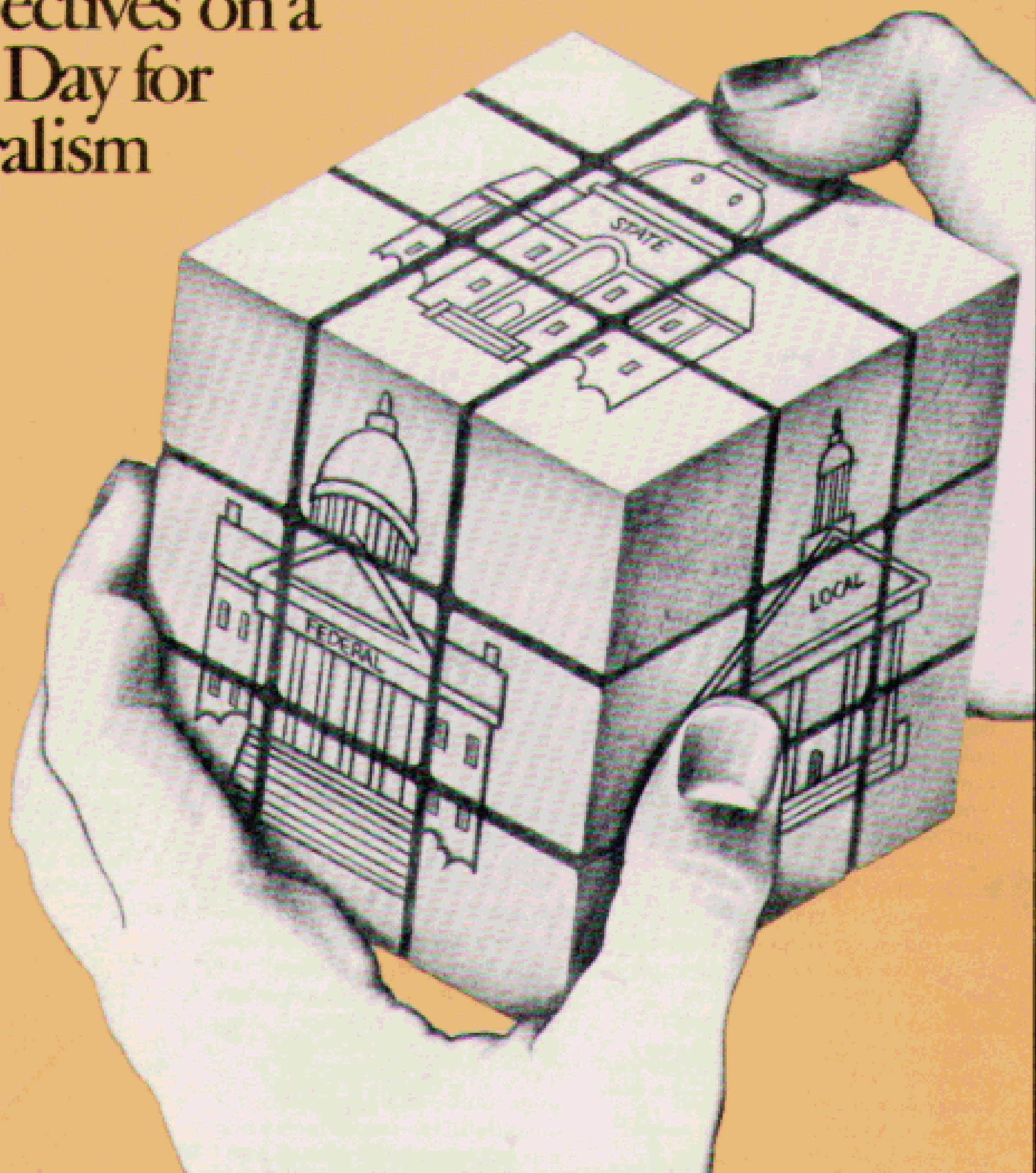
Intergovernmental PERSPECTIVE



Perspectives on a New Day for Federalism

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

View From The Commission

Dear Reader:

This issue of **Intergovernmental Perspective** deals with two pressing intergovernmental issues: rebalancing federalism and fiscal disparities among the 50 states.

Proposals to rebalance federalism are too important to be cast aside by skeptics in the Congress and the press. ACIR's view, shared by the President among others, is that our federal system needs drastic overhaul. Ignoring or indefinitely postponing efforts to rebalance what ACIR calls a "top heavy federal system" will only increase the disarray and make it tougher to deal with the problems later. Now that the issue has surfaced and received public attention, it deserves to remain at the top of the agenda where it can be subject to spirited public debate.

I do not subscribe to the "one track" theory of some of my colleagues on Capitol Hill—the view that we must put off any policy debate on federalism until we balance the budget. They believe that it is fine to drastically reduce federal aid to states and localities, but that giving them more responsibility and authority to make up these cuts and carry out these and other functions must wait until after the budget is balanced. Nonsense! We cannot balance the budget without making the policy changes first, and we are wasting our time pretending otherwise. The policy shifts inherent in a New Federalism calls for better use of all our institutions, including state and local governments—entities that are more responsible and more accountable to the needs of the American people.

Yet, we must also recognize that states and localities vary tremendously in their structure, function, fiscal role and well-being. New Federalism proposals presuppose strong state and local governments that are able to pick up not only additional responsibilities but also the extra costs to carry them out. Realistically, this is not always the case.

Along these lines, I have been particularly interested in ACIR's recent work on tax capacity—the ability of states and localities to raise revenues. The latest work of the Commission illustrates the need for fiscal equalization among the states. ACIR found that the disparities among the states in tax capacity is increasing sharply, due largely to the ability of some states to tax energy resources such as coal and oil through the use of severance taxes or leases. I believe this issue of fiscal disparities is one of the most important—and potentially most divisive—issues facing our intergovernmental system today. We must initiate some program of fiscal equalization to alleviate these growing disparities. As a first step, any allocation from a trust fund set up to help states and local governments take over certain federal functions must use a tax capacity measure such as ACIR's Representative Tax System which determines tax capacity by applying a set of uniform taxes to the tax bases of the 50 state-local systems. We must face the current fiscal situation for what it is—tight—and do what we should have been doing all along: improving our ability to target federal dollars to those governments and people most in need.

Articles highlighting the issues and analyzing various options such as those in this issue of **Perspective** are an invaluable aid to those of us committed and willing to carry out the goal of a strong and effective federal partnership. The mood of the country and the Congress, the fiscal situation facing us today, and the New Federalism initiative of the Reagan Administration make this our best opportunity to restore the balance of our federal system.

Dave Durenberger

Dave Durenberger
United States Senator
Minnesota

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Intergovernmental Focus

Negotiations, Blocks, Regulations Headline 1982 Federalism Agenda

At this writing, negotiations between state and local officials and the White House are still underway, and legislation has yet to be introduced in the Congress to implement the President's New Federalism proposals outlined in his State of the Union address in January. (See "Perspectives on A 'New Day' for Federalism?" on page 9 for an update on the major proposals and the discussions they sparked.)

Although the tradeoff-turnback initiative and subsequent negotiations are clearly the most dramatic elements of the Reagan federalism agenda, there is action on other fronts as well. Seven new block grants were proposed in the President's Fiscal Year 1983 budget and key intergovernmental issues are being resolved in developing final regulations for the block grants enacted in 1981.

Seven More Block Grants Proposed

In the Administration's proposed FY 1983 budget, the President asked for seven new block grants and additions to three existing blocks, in a further effort to "consolidate categorical grants, give state and localities more discretion over the use of the funds, and decrease state and local dependence on federal financing."

The seven new blocks, and the number of programs they would supersede, include:

- ☐ Vocational and adult education (8 categoricals)
- ☐ Education for the handicapped (13)
- ☐ Employment and training (4)
- ☐ Rehabilitation services (unspecified number)
- ☐ Child welfare (4)
- ☐ Rental rehabilitation (1 grant, 1 loan program)
- ☐ Combined welfare administration (3)

Budget authority requested for 1983 for the seven blocks is $6.5 billion, compared to the $7.5 billion the superseded programs received in 1982.

The three 1981 blocks proposed for expansion are primary care, maternal and child health services, and lowincome home energy assistance. Together they would absorb five additional existing categorical grants.

As of the first of May, legislation to implement these consolidations had not been introduced. The delay may be related to the fact that some of the new blocks are also included in the New Federalism package of programs proposed for devolution to the states.

Regulations for 1981 Block Grants

More action is underway on a second front, implementing the nine new block grants enacted by Congress in 1981. One of the major intergovernmental issues involved is the extent to which, and how, crosscutting requirements will apply to the new blocks. Crosscutting requirements are national policy or administrative requirements which extend to grant programs of more than one federal agency or department. Examples are requirements on civil rights, environmental protection, and employment conditions. In all, there are at least 59 crosscutting regulations, some applying to all federal grant programs, others to only some, with responsibility for enforcement exercised in varying degrees by different agencies.

Implementing regulations have been promulgated for the seven new HHS and one new HUD block grants. The new education block grant does not go into effect until October 1, 1982, and regulations have not yet been issued.

The interim regulations of the HHS blocks are silent on most of the crosscutting regulations and specifically include only crosscutting regulations on civil rights: the prohibitions on discrimination for race, color, national origin, sex, handicap, age, and religion. Explicitly exempted are two crosscutting administrative requirements: "Uniform Administrative Requirements for Grants to State and Local Governments" (OMB Circular A-102), and "Cost Principles" (OMB Circular A-87). The final HHS regulations are expected later this month.

HUD's interim rule on the Community Development Block Grant-State Program (the small cities CDBG program) also exempted OMB Circulars A-102 and A-87 and included the prohibitions against discrimination based on race, color, national origin, sex, and handicap. It excluded application of OMB Circular A-95 but required compliance with the purposes of the *National Environmental Policy Act of 1969*, and the requirements of "other applicable laws." The interim rule deferred comment on the "other applicable laws" pending further departmental study.

Concerns voiced by members of Congress and public interest groups about the absence of reference to other crosscutting regulations, as well as about other issues, delayed publication of the final HUD rule, but when it came out on April 8, 1982, it contained a section on "program requirements." In addition to the various prohibitions against discrimination and environmental standards, this section identified the Davis-Bacon minimum wage requirements and lead-based paint poisoning prevention as applicable to the CDBG state programs. In the accompanying commentary, HUD noted that the Department of Justice will determine the applicability of the uniform relocation regulation and that responsibility for administering the requirements on equal employment opportunity and prohibition against political activity of governmental employees is vested in other departments.

Beyond these specific provisions, the new block grant regulations are silent on how crosscutting regulations will affect state administration. Nor have the states been given any other published guidance from the federal government. Informally, OMB, which has played a leading role in preparing both the HHS and HUD regulations, is advising states that they should take full responsibility for deciding how crosscutting

regulations apply to the blocks. This approach accords with the Administration's basic policy of giving broad administrative discretion to the states.

ACIR staff currently is reexamining issues involved in the administration of crosscutting provisions in all grant programs, whether block or categorical, as part of its ongoing study of the federal regulatory process. The Commission is expected to consider the matter at its summer meeting, July 14.

Some Economic Development Tools May be Curbed, Others Fare Better

In times of economic hardship, economic development—and ways to promote it—becomes more and more popular. Economic development concerns are frequently translated into an array of slogans and incentives to lure businesses. While Maine claims it has "the basics for business," Kentucky counters that "it's the state that's run like a business." Maryland provides "incentives (that) have never been bigger" and Georgia lays out "the red carpet instead of red tape."

State and federal policymakers try to influence private-sector location and expansion decisions through a variety of policies including tax abatements, regulatory relief, and tax exempt financing. The states may well one day have enterprise zones, infrastructure grants, and Japanese yen at their disposal. Ironically, perhaps, one of the most popular tools in the economic development race—industrial development bonds (IRBs)—may be called back to the starting gate.

Industrial Development Bonds

Because they are tax exempt to business investors and virtually risk-free to states, IRBs are a popular way of providing industrial and commercial groups with below-market financing. As interest rates have risen on regular business loans, the appeal of IRBs has skyrocketed, along with the cost to the federal government. Estimated sales of IRBs grew from $1.3 billion in 1975 to $8.4 billion in 1980 and the current revenue loss to the federal treasury resulting from these sales is approximately $1.65 billion for Fiscal Year 1982. Additionally, as IRBs have mushroomed, so too have tales of IRB abuses, heating an already hot debate over the bonds' cost-effectiveness.

The Reagan Administration and several members of Congress have introduced proposals to curb IRB use. The Administration's proposal, included in its FY 1983 budget, would both limit the number of bonds that can be issued and attempt to involve state and local governments in the projects the bonds finance. Additionally, the Administration would require that the bond sales be subject to public hearings and reported to the Internal Revenue Service. In Congress, Senator Robert Dole (KA) and Representative Charles Rangel (NY) suggest IRBs should be curbed by using them mainly to help small businesses and distressed areas. Currently, while 49 states authorize IRB sales, only 11 target them to distressed areas.

Urban Enterprise Zones

While the federal government may limit state and local governments' use of IRBs, new federal incentives for business are being suggested in the form of urban enterprise zones. The Administration-sponsored bill, similar to legislation introduced earlier by Representatives Jack Kemp (NY) and Robert Garcia (NY), would eliminate capital gains taxes on investments within identified zones, provide additional investment tax credit for investments in a zone, offer an employee and employer income tax credit for enterprise-zone wages and payroll, and require eligible state and local governments to make complementary tax and regulatory changes in the zone.

Although enterprise zones have a number of Congressional supporters, they also have critics who note that the legislation's tax breaks, estimated to cost the federal treasury $310 million in the first year, may not be sufficient to attract enough businesses to make the plan work. Others view the enterprise zone plan as a poor substitute for established urban programs that may be abolished or severely curtailed.

Meanwhile, states have moved to establish their own enterprise zone programs. There are at least three such programs, in Connecticut, Louisiana, and Maryland. A number of other states have measures similar to enterprise zones or are considering new legislation in the area.

Infrastructure Repair and Replacement

In addition to enterprise zones, some members of Congress are working on ways to aid in repairing and rebuilding America's public infrastructure. The problem is a large and expanding one. Cleveland, for instance, faces a backlog of some $700 million in basic improvements. New York City is expected to need some $40 billion over the next nine years to repair, service, and rebuild basic public works facilities. Dallas must raise almost $700 million for water and sewage treatment systems over the next nine years. Transportation-related facilities—interstate and nonurban highways, bridges and railroad beds—are also deteriorating and in need of major rehabilitation or reconstruction.

At present, no one has offered a viable way to finance the massive costs included in infrastructure repair or replacement. Creative financing suggestions include tapping the federal highway trust fund, imposing user fees, or shifting the operation of some facilities from public to private operation. Both Transportation Secretary Drew Lewis and some members of Congress have suggested informally that additional local user fees be instituted and a percentage of the highway trust fund be earmarked for infrastructure assistance.

Help From Abroad

Even if consideration of enterprise zones and infrastructure aid is postponed, the Japanese yen may surface as yet another state resource. In April, Mr. Zentaro

Kosaka, former Foreign Minister of Japan, Chairman of the Foreign Affairs Research Council of the Liberal Democratic Party, and a member of Parliament since 1946, outlined a plan whereby Japan would loan or issue bonds to state investment projects in the United States at Japanese interest rates, currently 7-8%. The program would give American businesses access to low-cost money and strengthen the Japanese yen while somewhat reducing the current Japanese trade surplus with the U.S. To date, the response to Mr. Kosaka's suggestion has been mixed: Japan's Finance Ministry is opposed to the plan, while U.S. Trade Representative William E. Brock warmly endorsed it. Meanwhile, the states appear ready and willing. The National Governors' Association, acting as an intermediary, has already accepted 60 proposals for Japanese financing from approximately 40 states.

Help from Congress?

At a time of general retrenchment on the grant front, Congress enacted last year a small new program to stimulate exports. The Small Business Export Development Assistance Program, funded at $2 million in fiscal year 1982, was authorized in P.L. 96-481, the *Small Business Export Expansion Act*. States, local governments, regional bodies, nonprofit groups, and small for-profit businesses were invited to apply for grants of up to $150,000 to stimulate sales abroad. The Department of Commerce's International Trade Administration is directing the new program which may be funded again this coming fiscal year.

Meanwhile, some help may be on the way for public works and other development projects. The House Public Works Committee has marked up legislation that would authorize $500 million over each of the next three fiscal years for economic development. Called the "National Development Investment Act of 1982," the bill awaits floor action in the House. Similar legislation has been introduced in the Senate.

Tough Budgetary Decisions Ahead For States and Local Governments

Recession, reductions in federal aid, and federal tax law changes all create difficulties in making ends meet at the state and local levels of government.

Since all states, except Vermont, are required to balance their budgets, spring legislative sessions in many of the states have been pressed to cut expenditures, find additional revenue sources, or both.

In 1981, total state expenditures registered their smallest gain in 20 years—only 7%. Slowed expenditure growth, coupled with legislative actions to increase tax receipts and other factors, caused state surpluses to rise slightly last year, but the increase may only be temporary. In a number of states, general fund balances have reached the point where tough decisions must be made. According to a survey conducted by the National Conference of State Legislatures published in May, 22 states have already increased taxes this year, nine have significantly cut the number of state employees, eight have made across-the-board budget cuts, and many others have made selective budget reductions.

States are taking a variety of approaches to deal with actual projected fiscal shortfalls:

- ☐ To prevent an expected deficit of over $700 million, **New Jersey** Governor Kean proposes to extend the state sales tax to gasoline and other items, raise mass transit fares by 25%, and increase tuition at state-run colleges by 10%.
- ☐ To close a $200 million revenue gap, **Minnesota** legislators passed a fiscal package which increased taxes by $69 million, cut spending by $30 million, reduced payments to local governments, and shifted $102 million in various obligations to the next budget cycle. Earlier this year, the legislature enacted a 7% income tax surcharge as part of a package to balance the budget.
- ☐ **Ohio,** following sales tax hikes last year, is seriously considering increases in its income tax. Now faced with a potential $1 billion deficit, the state senate approved an income tax surcharge of 25% for calendar 1982 and of 12.5% for calendar 1983.
- ☐ **Michigan,** having already cut expenditures considerably—the latest round amounted to $308 million—resorted to tax increases this year. The legislature voted to raise the income tax rate from 4.6% to 5.6% for the last six months of the state's current fiscal year.
- ☐ **Alaska,** in an enviable position by most standards, faces declining revenues caused by slumping oil prices. Accordingly, fiscal year 1983 spending plans are being scaled back to $2.7 billion, some $700 million less than originally proposed.
- ☐ **Wisconsin** cut state spending and raised sales and cigarette taxes in April to stave off an anticipated $450 million deficit. The across-the-board reduction in expenditures was expected to save $40-50 million. Of the tax increases, a one-cent boost in the sales tax will raise approximately $250 million, and higher cigarette taxes will bring in the balance.
- ☐ **California** legislative leaders agreed on a $502 million package to offset a persistent budget deficit. The stop-gap plan to balance the current budget would clear the way for concentrated negotiations on the FY 1983 budget which is already estimated to be $1 billion out of balance, only two months after it was proposed.
- ☐ **Oregon,** with sagging revenues and an ailing timber industry, ended its longest legislative session with a last minute compromise to raise badly needed revenues. The result is an effective increase in property taxes for some homeowners, a state income tax increase, and a 3¢ hike in the cigarette tax—on top of state agency cuts of $87 million. To spur economic recovery, a $2 million appropria-

tion for the governor's development plan was approved.

Federal Tax Changes Also Spell Change for States

Federal cuts in personal and corporate taxes enacted last year as part of *Economic Recovery Tax Act of 1981* (ERTA) could result in a $700 million revenue loss to states over the next two years, according to the Council of State Governments (CSG). This figure nets an anticipated $800 million loss in corporate tax revenue with a projected $100 million gain for individual tax collections. Corporate tax losses are due primarily to changes in federal depreciation schedules. Individual income tax revenues rise because lowered federal taxes cause lower deductions for state income tax purposes and leave more income subject to state taxation.

At least 35 states currently conform to all or part of federal corporate tax provisions. Of these, at least five are considering disconnecting from federal provisions (namely, the Accelerated Cost Recovery System) and three have already taken steps to disengage.

Making Ends Meet at the Municipal Level

A survey conducted late last year by the Congress' Joint Economic Committee showed that most large cities have already had to make major adjustments in spending to accommodate general economic sluggishness and lessened federal and state aid. Because voters' go-slow attitudes on spending and Proposition 13-type limitations often prevent increasing property taxes, the chief response in city halls has been revenue diversification. The most popular way to find additional resources is through user fees. In a recent survey conducted by ACIR of 595 municipal finance offices, 70% of the respondents (307 to date) indicated that they have made more intensive use of service charges. According to ACIR Assistant Director John Shannon, "The mood of the country can be summed up with a bit of doggerel. Don't tax me, and don't tax thee. But charge that user a darn good fee."

In some cities, raising fees, postponing capital projects, or other similar budgetary adjustments have not been enough to avert a more serious crunch. In Rochester, NY, support is mounting to turn over a major municipal function, police services, to Monroe County. Rochester is prevented from raising its property taxes by the state constitution while the county, which has been undergoing substantial urbanization, is not.

In Maricopa County, AZ, the county chairman said the county will go bankrupt if it is not allowed to raise property tax revenues. The chairman is trying to gain support for legislative approval of a tax increase. In Arizona, the state legislature must give the county permission before it can ask the voters for permanent increases in property taxes.

States, Localities Win Some, Lose Some in 1982 Supreme Court so far

Like its last term, the Supreme Court's 1981-82 term has not, thus far, readily lent itself to convenient ideological labels. While particular decisions may be tagged conservative or liberal, it is difficult to append either label to the Court's decisions to date. Nor has it been any easier to describe the term as being particularly sympathetic or unsympathetic toward state and local government. The same sort of ambivalence that has characterized the current term's ideological bent has permeated that loosely-associated set of opinions having special intergovernmental significance.

In perhaps its most far-reaching decision to date, the Court held that local governments may be sued for violating federal antitrust laws when they regulate private business. The decision in that case, **Community Communications Co. v. Boulder,** is regarded by some as a severe blow to localities, their ability to govern effectively, and indeed, the principle of home rule itself. Others, however, disagree with such doomsday predictions contending instead that the ruling's egregious consequence will be a rash of expensive lawsuits. At issue in **Boulder** was a 90-day moratorium imposed by the City of Boulder, Colorado, on the expansion of an existing cable franchise. The affected cable company challenged the city's action as a violation of antitrust laws. Boulder argued that as a home rule municipality it was free of *Sherman Act* liability under the "state action" exemption. The Court rejected that interpretation, saying the principle of sovereignty applies to states and not to "sovereign cities." (See "A Legal Opinion," on page 32 for further discussion of this case.)

Local government may have "lost" on the regulatory front in **Boulder,** but it "won" in **Village of Hoffman Estates, Illinois v. The Flipside** where the Court upheld a strict village ordinance banning the sale of drug accessories in the local "head shop." The ruling appears to give local governments fairly wide-ranging power to regulate the sale of drug paraphernalia.

State courts were "winners" as well with a Supreme Court ruling that seems to "pull in the reins" on certain federal judicial activity. Two recent decisions, limiting the use of habeas corpus, will make it more difficult for prisoners to obtain federal judicial review of state court convictions through use of the "Great Writ."

If states and localities appear to have chalked up more gains than losses, the Court's ruling in **United Transportation Union v. Long Island Rail Road** came as a deep disappointment (though not necessarily a surprise) to subnational governments hoping for a "generous" elaboration of the now six-year old **NLC v. Usery** doctrine. Instead, the court ruled that applications of the *Federal Railway Labor Act* to employees of the state-owned Long Island Rail Road did not impair the state's ability to carry out its sovereign functions. The court found that operating railroads, is *not* a traditional state or local

activity and, thus, the federal law did not constitute a violation.

Nor, in **FERC v. Mississippi** did a sharply divided Court find the *Public Utilities Regulatory Policies Act* (PURPA) to be an entrenchment "on state sovereignty in violation of the Tenth Amendment," despite the contention by a district court judge that portions of the act reduced the State of Mississippi to "a robot, or lackey which may be shuttled back and forth to suit the whim and caprice of the federal government." Rather, Justice Blackmun, writing for the Court, gave his blessing to the act, noting that Congress might have completely preempted the field of public utility regulation but chose, instead, to rely on existing state machinery—thus, exhibiting deference to state authority. Contested portions of the act were Titles I and III which compel states to *consider* the use of six approaches in structuring utility rates and thereafter report and explain the results of their consideration to the Secretary of Energy and Section 210 which requires the states to implement certain federal rules encouraging cogeneration and small power production facilities. Dissenters to the ruling, lead by Justice O'Connor, countered vigorously, calling the decision "contrary to the principles of **National League of Cities v. Usery,** antithetical to the value of federalism, and inconsistent with our constitutional history."

Finally, in another energy-related case, the Court's unanimous opinion in **New England Power Co. v. New Hampshire** concluded that restrictions on the exportation of hydroelectric energy are in violation of the Commerce Clause.

Still ahead of the Court this term are a number of very difficult intergovernmental issues. Two of them are particularly worthy of note:

- **Patsy v. Board of Regents of the State of Florida** in which the Court will be asked to decide whether Section 1983 plaintiffs must exhaust all available state administrative remedies before filing suit in federal court; and
- **Plyer v. Doe** in which the Court will be asked to decide whether a Texas statute that denies financial aid to local governments for the education of illegal alien children violates the Equal Protection Clause of the Fourteenth Amendment.

Senate and Administration Move on Regulatory Federalism

"The Regulatory Reform Act of 1982," adopted unanimously by the Senate on March 24th, contains a number of provisions which, if enacted, would significantly alter the way federal rules are promulgated. In addition to the controversial legislative veto by which Congress can, if both houses agree, nullify an executive branch rule, the Senate measure (S. 1080) features the following changes with intergovernmental implications:

- ☐ Major federal rules and regulations would have to be accompanied by cost/benefit analyses;
- ☐ State and local officials and their representative organizations would be exempted from the *Federal Advisory Committee Act* (FACA) when consulting with federal agency officials about proposed regulations. As FACA is now interpreted by federal agencies, public interest groups representing elected officials must follow the same stringent requirements mandated for other interest groups when advising federal agencies;
- ☐ Grants, loans, benefits, and contracts would no longer be exempted from the *Administrative Procedure Act's* notice and comment requirements. Since 1946, this act has been the guarantor of minimum legal rights for public participation in federal rule-makings. The exclusion of grants, many believe, has created substantial problems for state and local officials in gaining early access to the decision-making process in grant programs;
- ☐ State and local governments would be allowed to substitute their own requirements for federal regulations when they are at least as stringent as federal ones.

All of these changes to the federal regulatory process were endorsed by ACIR in March. An important provision of the Senate bill that was not considered by the Commission provides that any rule promulgated by a federal agency shall have no effect "on any contract, cooperative agreement or grant existing between a federal agency and a state or local government for a period of one year from the effective date."

A-95 Replacement Proposed

On another regulatory front, the Administration has proposed replacing the A-95 process with a voluntary state program that will enable state and local elected officials to review and coordinate federal plans and proposed actions. Federal agencies would, under the proposed replacement, be instructed to use these state-designated procedures to determine state and local views, to state and local resources and support. officials as early in the planning process as possible to explain their proposed actions, and to provide for interstate coordination when federal plans have potential impact on more than one state.

The A-95 process, as stipulated in the Office of Management and Budget's Circular A-95, was established to facilitate interagency coordination at the federal level and to help coordinate federal programs on a regional or areawide basis. The A-95 process required that interested and affected parties had to be notified before the federal government could fund a project in a given area. Regional planning organizations were established and federally funded in part to perform this function.

Many of the substate regional councils serving as A-95 clearinghouses will go out of business as a result of federal budget cuts and many others will have to curtail operations. Even a drastically streamlined version of A-95 activity, such as that outlined in the revision, will probably require increased state and local resources and support.

Perspectives on A "'New Day'" for Federalism

by Albert J. Davis and
S. Kenneth Howard

On January 26, 1982, President Reagan made federalism, once dubbed the "dismal swamp" of intergovernmental relations, the centerpiece of his State of the Union address. In doing so, the President launched what he said would be a "'new day' for American federalism and described his framework for a "program to make government again accountable to the people . . . accomplishing a realignment that will end the cumbersome administration and spiralling cost at the federal level."

Like a powerful depth charge, President Reagan's New Federalism proposal is raising to the political surface several perennial and thorny issues of federalism:

a. **The Philosophical Issue**—What should be the relative importance placed on the values of equity, accountability and efficiency? Variations in the mix of these values can tilt federalism towards either greater centralization or decentralization. Determining which level of government should finance income maintenance programs for the poor puts these competing values to the acid test.
b. **The State-Local Relationship Issue**—Have local governments (the "creatures" of the state) become so emancipated that they should be allowed to cut the best deal they can with Washington from now on?
c. **The Fiscal Equalization Issue**—Can Washington turn back more and more responsibility to the states without recognizing that some states are rich while others are poor?
d. **The Fiscal Balance Issue**—Now that the federal government is moving into a period of fiscal stress, will the proposition survive that the federal level is obliged to distribute a a fiscal dividend to states and localities?

This article seeks to provide a framework within which to appraise these thorny issues while pointing up differences in three major proposals for resolving them.

The Philosophical Issue

Any working federalism reflects a practical consensus on three major, but often overlapping and conflicting, values: equity, accountability, and efficiency. Each of these values is not one dimensional but multifaceted: equity to whom? accountability to whom? and greater or lesser efficiency or effectiveness compared to what? The number of options and possible combinations of programs that could provide varying degrees of balance among these values is almost endless. It is that very plethora which motivates this article's attempt to sort out the variables and issues so that readers can better understand and assess individual specific proposals.

Equity

As a concept, equity focuses on fairness, impartiality, and justice. Typically, the equity emphasis is on assuring basic rights or supports for poor individuals or jurisdictions; it tends to have a centralizing effect. For these purposes, equity has both fiscal and procedural aspects.

Procedurally, there is a long-standing fear that a small but like-minded group, which may be a majority in a particular setting or area, will deny certain basic rights to individuals, actions that could not be tolerated in a larger context. James Madison's classic arguments about the tyranny of a local major-

ity clearly ring with equity sounds. Support for many of the federal government's actions arises from fears that smaller units of government, especially states and localities, would deny certain rights or protections to some of their citizens. Certain "cross-cutting" requirements in federal grants (equal hiring practices, public participation, prevailing wage levels, and so forth) arise from these concerns.

Fiscal equity, in the current context, asks what can be done to help "poor" people, localities, and states. Whatever the clientele, whether individuals or governmental entities, to what extent should those relatively better off aid those who are less blessed? Debates over redistributions of money, power or other resources have equity issues at their heart.

Accountability

It is a basic tenant of a democracy that public officials, whether elected or appointed, should be accountable in some way to the electorate. The federalist issue is whether or not it is easier to hold officials accountable if they are closer to home. The more a national government does, the less the populace may feel it can hold its officials sufficiently accountable. Political accountability tends to favor decentralization.

Several important issues of fiscal accountability also arise in current debates. Does the federal penchant for spending more than it has in revenues mean that state and local governments are more fiscally accountable? To what extent should elected officials at one level of government raise money solely for distribution to governments at a lower level? Are the officials at the more central level accountable and responsible if they simply pass on resources without strings? Should those who enjoy the pleasure of spending feel the full pain of levying the supporting taxes? Accountability may argue against broad general purpose grants, perhaps even all grants. Fiscal accountability helps bolster Congressional preference for narrow purpose grants with their multitude of requirements that state and local officials often find too rigid and inefficient. Fiscal accountability, unlike its political cousin, may encourage centralization. Furthermore, if the more centralized level has the more equitable ways to raise money, equity may demand a centralized approach. The potential conflict between equity and political accountability is clear.

Efficiency

The third value, efficiency, cuts across the other two to provide a third point of tension in this struggle among competing values. At the simplest level, the public wants program results at least equal to the money they cost. Citizens want to believe that they are not paying for fraud, waste, or abuse. They tend to believe that smaller units closer to the people (and therefore more politically accountable) are freer of these undesired characteristics.

Allied logic supports the contention that smaller and closer governments, although they may be more tyrannical in a Madisonian sense, can better promote citizen participation—a quality democracy tries to encourage. But if redistribution of any sort is desired for equity reasons, it is usually larger and more centralized governments that can deal most effectively and justly with such issues. Similarly, responsibility for general economic well-being and stability is typically and more effectively carried out by larger units of government, ordinarily national in breadth. In these latter examples, program effectiveness urges centralization even though generally, program and administrative efficiency may favor decentralization.

Although these values of accountability, equity, and efficiency are multidimensional and are perhaps no better measuring devices than rubber yardsticks, they do provide a broad conceptual framework within which to evaluate more specific proposals for change.

Major Proposals in the New Federalism Debate

The President's plan outlined in his State of the Union address was soon joined by two other major proposals: one put forward by state interest groups; and the other, by Senator David Durenberger (MN). Negotiations, underway since the three plans were offered, have sought a compromise so that the Administration could transmit broadly supported legislation to Congress. Notably, the White House has tentatively accepted the Governors' insistence that the federal food stamp program not be "turned back" to the states, but a complete agreement had not been reached as of this writing.

The three initial proposals highlight areas of common agreement and of conflict. All provide for a federal takeover of Medicaid and significant returns of responsibilities to the states. A large dollar block of federal grants, up to $35 billion as of 1982, for particular services or facilities—transportation, education, social services, and the like—would be terminated. All establish a transitional "hold-harmless" period of several years during which state and local governments are to be protected against fiscal losses. The transitional period is managed in all cases by a "trust fund," from which allocations would be made to the states until the end of the hold-harmless period. The trust fund would be used to offset any net imbalances among the states caused by federal assumption of state Medicaid costs, on the one hand, and state assumption of other responsibilities, on the other hand. In addition, protections are to be worked out so that localities would receive aid from the states to replace amounts lost by termination of federal grants. Finally, where plans called for aid to families with dependent children (AFDC) and food stamp responsibilities to go back to the states, states would be temporarily required to maintain minimum levels of public assistance for individuals.

The plans differed sharply on who should be responsible for major welfare programs other than

Medicaid, and in their concern for fiscal equalization among the states. In the President's original proposal, major welfare-type responsibilities—AFDC and food stamps—were to be turned back to the state level. In a sharp departure from his long-standing insistence that all welfare programs be turned back to the states, the President proposed federal assumption of Medicaid. As the Governors had long advocated, the President partially accepted the idea that "accountability-blurring" grants should be swept away by trading-off, not just turning back, responsibilities.

The National Governors' Association (NGA), and other state interest groups, advocated adoption of ACIR's long-standing recommendation of full federal assumption of welfare programs and Medicaid. Both

Figure 1

OVERVIEW OF ALTERNATIVE "NEW FEDERALISM PLANS"

	Administration	Durenberger	NGA
I. Governmental Roles			
Medicaid	Federalize	Federalize	Federalize
Food Stamps	Turn back	Turn back[1]	Retain as federal[2]
AFDC	Turn back	Turn back[1]	Retain as grant[2]
Other	Turn back 60 to 70 grants[3]	Turn back 60 to 70 grants[3]	Turn back 50 to 60 grants[3] (transportation excluded)
II. Resource Return for States[4]			
A. Transition Period	Trust fund	Trust fund	Trust fund
1. Dollar Amount	$28b	$28b	$13b[5]
Full Protection	1984-87	1984	1984
Partial Protection	1988-91: excise phase-out occurs	1985-88: part by formula sharing	1985-88: part by formula sharing
2. Growth	No	Yes	No
B. Post-Transition			
1. Amount and Method	$11b via excise repeal	$11b excise return, plus permanent trust fund to grow ($33b to $36b in 1988).	Subject to later determination.
Federal-State Balance as of 1988[6]	For the states, a loss more likely than a gain[7]	Gain for the states.	Gain for the states.
2. Distribution	By excise tax bases.	Partly by excise bases, trust fund amounts by grant formula sensitive to fiscal capacity.	Subject to later determination.
III. Assurances for Medicaid or Public Assistance Beneficiaries	Maintenance of effort 1984-87 for states for public assistance; no Medicaid provisions.	Same as Reagan plus mandate that state assure minimum resources/ services for families by type. No Medicaid provisions.	No need for public assistance provisions; no Medicaid provisions.
IV. Assurances for Local Governments, Other Former Grantees	Two part pass-through requirement 1984-87: 100% for former direct federal-local grants; 15% for former non-ed. federal-state grants. No provision for other former grantees.	Same as Reagan for 1984-87, then 1988-98 phase-out. No provision for other former grantees.	1984: former grants to be funded by the state at previous level (all grantees); 1985-87 phase-out.

[1]The Senator's plan reflected the idea that while states would run public assistance programs with considerable discretion, the federal government would still have a financing role and would discharge it via the trust fund grants that are part of his plan.

[2]The NGA, strictly speaking, suggested that disposition of public assistance responsibilities be an issue that would be deferred for further negotiations.

[3]Counted as of FY 82.

[4]States would also obtain fiscal relief via federalization of Medicaid. Distribution of this relief depends both on amounts states would have spent on Medicaid and changes in federal spending on Medicaid.

[5]For 1984-88, under the NGA plan, the trust fund would be smaller ($13b vs $28b) since there are no AFDC or food stamp burdens to be placed on the states.

[6]Neither the phase-out of the oil windfall profits tax nor reduced federal budgets implying lower federal taxes are counted as resource returns to the states.

[7]Beyond 1988, a gain for the states becomes possible, assuming that Medicaid costs lifted from the states would show greater growth than the cost of meeting responsibilities turned back.

Source: ACIR staff.

the National Conference of State Legislatures (NCSL) and the National League of Cities (NLC) have basically supported the ACIR welfare recommendation, but, as part of the recent negotiations, have adopted policy positions allowing more compromise on the issue of state assumption of AFDC.

Senator Durenberger's proposal provided for the same reallocation of responsibilities as the President's but differed on the trust fund provision. The President proposed a temporary trust fund to be phased-out as selected federal excise taxes were lowered to make "tax room" for the states. The emphasis was on fiscal accountability—if states found programs worthwhile they should be willing to tax for them. Senator Durenberger, soon joined by state and other interest groups, instead advocated establishing a permanent, rather than a temporary, trust fund financed through the federal income tax. The trust fund would be a revenue sharing device, distributing funds directly to state governments according, among other possibilities, to differences in their capacities to raise taxes on their own. The fund could also be a vehicle for expressing continued national interest in minimum standards for state welfare programs. Equity concerns were clearly more predominant in these proposals.

Figure 1 summarizes and compares the three early 1982 proposals. With the three major plans on the table, negotiators from the Administration, NGA, NCSL, and other relevant groups set about to find a common ground. The question about which level of government should be responsible for welfare proved to be the most difficult. By late May, reports were circulated that a tentative accord had been reached on certain fundamentals. The White House team said it was willing to consider keeping food stamps at the federal level if AFDC responsibility went to the states. Key to the negotiations, and still to be clarified as this **Perspective** went to press, were the federal requirements that might be placed on state welfare programs and the definition of a federal Medicaid program. State and local officials are awaiting Medicaid information, according to their interest group spokesmen, before they consider the agreement further. Like the original proposals, the compromise tentatively reached includes state takeover of many programs now supported by federal categorical or block grants. Reportedly, the state assistance trust fund idea was accepted and might potentially be broadened to include helping states suddenly hit with unusually large increases in unemployment, or other types of fiscal stress.

Income Maintenance: An Acid Test of Philosophy

The fact that assigning income maintenance responsibilities has been a major hurdle for the intergovernmental negotiators is not all that surprising. Indeed, it might be difficult to pick out a combined social policy and financial issue over the last 20 years that has produced less consensus than which level of government should have primary responsibility for aiding the poor and how such aid programs should be designed. Since the Great Depression, the responsibility for financing welfare programs has shifted from the family to local governments, toward the states, and then toward the federal government. However, complete federal takeover was never achieved because of cost considerations and disagreement over what would constitute welfare reform.

"Indeed, it might be difficult to pick out a combined social policy and financial issue over the last 20 years that has produced less consensus than which level of government should have primary responsibility for aiding the poor and how such aid programs should be designed."

Strongly held and opposing views about the appropriate role of the federal government in the welfare area are now colliding. Involved are the food stamp, AFDC, and Medicaid programs which account in 1982 for nearly $60 billion of combined federal, state, and local spending. Additional related and auxiliary programs such as child nutrition and the work incentive program, are also part of various New Federalism proposals but are somewhat less controversial.

The ACIR, NGA, and NCSL, among others, have argued that the federal government is the one best able to bear the financial burdens of income maintenance programs and to finance them appropriately, and that it is the only level that can redistribute income without driving taxpayers out of some jurisdictions and poor people into others. Just as the national government assumes paramount responsibility for managing the economy, it is argued, it should also accept responsibility for meeting the basic human needs of those whom the economy has failed.

Yet widespread public dissatisfaction with federally aided welfare programs has encouraged advocates of a smaller federal role in income maintenance. Strong public sentiments sustain key members of the Reagan Administration as they argue against providing nationally set benefits to people as a matter of "right," regardless of their ability to support themselves through work. The Administration argues that decisions and rules must distinguish among potential welfare beneficiaries, separating those who can work or get assistance elsewhere from those who cannot. Presidential Assistant Robert Carlson,

former California Welfare Director, argues that such decisions can only be made fairly and effectively at the state or local level. Finally, the argument goes, if state or local officials are going to make the decisions as to who receives benefits and how large those benefits will be, they should be held fiscally accountable. Strict fiscal accountability, in this view, rules out the present system in which the federal government pays for a considerable portion of any expanded benefits or eligibility. Fiscal accountability also argues against the present AFDC or Medicaid systems in which costs are imposed on the states by federally mandated requirements.

AFDC and Food Stamps

State decision making and conditions vary in the AFDC program. The key question under the Administration's proposal is what would happen if the program were fully state funded? In 1980, annual state spending (including that financed from federal aid) per AFDC recipient ranged from $380 in Mississippi to $1,706 in Wisconsin.[1] For 1980, per capita annual state AFDC costs ranged from $11 in Arizona to $170 in Washington, DC. Although federal assumption of Medicaid costs would release funds that

[1]This comparison excludes high cost-of-living Alaska.

Is Major Change Necessary?

In 1980 the members of the ACIR concluded that "the current network of intergovernmental relations has become dangerously overloaded, to the point that American federalism's most trumpeted traditional traits—flexibility and workability—are critically endangered;" and that "this tendency to 'intergovernmentalize' practically all domestic functions hinders the achievement of equity, administrative effectiveness, economic efficiency, and political, electorial, and administrative accountability."[1]

The Commission's position flowed from a four-year study of the federal role in the federal system which found that over the past 20 years that role has grown bigger—in terms of federal aid dollars—broader—to the point where it affects even the smallest county and local government— and deeper—through influences felt by federal regulations and mandates.

ACIR recognized the positive effects of some expansions in the federal role but questioned the effectiveness of the bewildering network that now characterizes intergovernmental relations. The central point of the 11-volume study which chronicled the growth in the federal system was this question: When every domestic function is "intergovernmentalized," when every level of government is responsible for everything, then which can be held accountable?

Many agree with the ACIR diagnosis. Mayor Tom Moody of Columbus, OH, described the public discontent with "a system where the federal government continually pours out millions and millions of dollars and they see so few results."[2]

Professor George Break of the University of California at Berkeley traces some of the disenchantment with the federal grant system to the Great Society period:

> The Great Society had tried to specify national objectives and implement them with a lavish application of carefully labeled categorical grants. The pinpointed categoricals were often woefully unsuccessful in fulfilling their intended purposes. Like parents who try to force their children into patterns which they approve, a long series of Washington regimes have discovered that they cannot keep things under their direction as much as they would like. That raises a nagging question. Whose will, after all, ought to be done in a democracy? Is Washington really in a better position to judge needs and ordain reforms than people out in the hinterland?[3]

Of course, not everyone agrees that the intergovernmental system is failing badly enough to warrant a major realignment of responsibilities. While there may be too many small grants, too much paper work, and too much regulation, incrementalists suggest that these problems could be dealt with by more consistent management, consolidation of some narrow purpose grants, and termination of certain other grants. Richard Nathan, now at Princeton University and formally an official of the Nixon Administration, favors grant reform but of an incremental nature. He defends federal government involvement in so many matters on the grounds that "people and jobs move in a free society, and people are concerned that financing and provision of public services be equitable regardless of where people might live."[5]

Ironically, Richard Nathan has himself characterized the difficulties involved in attempting incremental reform. Commenting on his experience with the federal government in the late 1960s and in particular on proposals to consolidate narrow purpose grants, Nathan has written:

> The problem simply put is that this approach doesn't work. Let me use an illustration. In 1969, the Administration proposed consolidating several narrow library grants. The Congress resisted, and the reason was simple. It can be expressed quantitatively; 99.99% of the public is not interested in library grant reform. Of the 0.01% who are interested, all are librarians and oppose it.[6]—**A.J.D.**

[1]**The Federal Role in the Federal System: The Dynamics of Growth, An Agenda for American Federalism: Restoring Confidence and Competence,** ACIR, A-86, Washington, DC, 1981, pp. 107-108.

[2]"Evaluating the Federal Aid Reform Optioncipal Reactions," **National Tax Journal,** September 1981, p. 336.

[3]**The Future of Federalism in the 1980s, Report and Papers From the Conference on the Future of Federalism,** "Fiscal Federalism in the United States: The First 200 Years, Evolution and Outlook," ACIR, M-126, p. 50.

[4]**Politics and Professors, The Great Society in Perspective,** Henry Aaron, Brookings Institution, Washington, D.C., 1978, p. 4.

[5]"No To Block Grants for Welfare," **Commonsense,** Winter 1980, p. 10.

[6]"Special Revenue Sharing: Simple, Neat, and Correct," (Unpublished manuscript), quoted in **Block Grants: A Comparative Analysis,** ACIR, A-60, Washington, DC, 1977, p. 4.

Table 1

STATE FISCAL CAPACITY, POVERTY LEVELS, AND ASSISTANCE LEVELS OR SPENDING, 1980

States	ACIR Fiscal Capacity *Index*	Persons in Poverty as Percent *of Population*	Medicaid Outlays Per *Recipient*	Maximum[1] Monthly AFDC *Grant*	Combined Maximum[1] AFDC/Food Stamps: Yearly	Combined Maximum[1] AFDC/Food Stamps: As Percent of 1980 Poverty *Threshold*	Combined Maximum[1] AFDC/Food Stamps: As Percent of State Per *Capita Income*
Alabama	76	17.9%	$ 813	$118	$3612	55%	48%
Alaska	260	10.1	1571	514	8952	109	64
Arizona	89	12.4	-0-	202	4608	70	52
Arkansas	79	18.7	1057	161	4128	63	57
California	117	11.3	798	463	6804	104	62
Colorado	113	10.2	1280	311	5427	83	54
Connecticut	112	8.7	1612	406	6324	96	54
Delaware	111	11.9	924	266	5148	78	50
District of Columbia	111	18.9	1327	286	5316	81	44
Florida	100	13.0	782	195	4536	69	50
Georgia	82	16.4	1075	164	4164	63	52
Hawaii	107	10.0	899	468	7956	105	79
Idaho	88	12.7	1182	282	5280	80	66
Illinois	108	11.5	1136	302	5448	83	52
Indiana	92	9.8	1728	255	5064	77	57
Iowa	105	9.4	1293	360	4940	90	53
Kansas	109	10.2	1352	345	5820	64	58
Kentucky	83	18.4	721	188	4452	68	59
Louisiana	109	18.9	1138	173	4272	65	51
Maine	80	12.9	787	280	5268	80	67
Maryland	99	9.9	1021	270	5184	79	50
Massachusetts	96	9.8	1288	379	6096	93	60
Michigan	97	11.1	1101	462	6828	104	69
Minnesota	102	9.3	1817	417	6420	98	66
Mississippi	69	24.5	687	96	3348	51	51
Missouri	94	12.4	919	248	5004	76	56
Montana	113	12.4	1354	259	5088	77	60
Nebraska	97	10.4	1532	335	5736	87	61
Nevada	155	8.5	1782	262	5112	78	48
New Hampshire	97	8.7	1603	346	5820	89	64
New Jersey	105	9.7	1118	360	5940	90	54
New Mexico	107	17.4	800	220	4764	73	61
New York	90	13.4	1985	477	6924	105	68
(New York City)	navl	navl	navl	(394)	(6228)	(95)	(61)
North Carolina	80	14.6	1065	192	4500	68	58
North Dakota	108	12.8	1488	334	5724	87	65
Ohio	97	10.5	1001	263	5124	78	54
Oklahoma	117	13.3	1046	282	5280	80	58
Oregon	103	11.3	646	339	6264	95	67
Pennsylvania	93	10.5	846	318	5592	85	59
Rhode Island	84	10.3	1255	453	6224	95	66
South Carolina	75	15.9	768	129	3744	57	52
South Dakota	90	16.1	1575	321	5616	85	72
Tennessee	79	17.0	1071	122	3660	56	47
Texas	124	14.8	1426	116	3588	55	38
Utah	86	10.7	1387	348	5844	89	76
Vermont	85	11.4	1102	492	7044	107	90
Virginia	95	11.5	1120	258	5088	77	54
Washington	103	10.2	1044	440	6612	101	64
West Virginia	94	14.5	801	206	4644	71	60
Wisconsin	95	8.5	1616	444	6448	101	69
Wyoming	197	8.0	1303	315	5568	85	51
United States, Mean	100	12.5%	1158	299	5398	82	59

[1] *Maximum for a 1-parent family of 3 persons*

Source: ACIR staff computations based in part on the following sources: U.S. Senate, Committee on Finance, **Major Expenditure Programs Under the Jurisdiction of the Senate Committee on Finance,** *April 1981; U.S. Department of Commerce, Bureau of Economic Analysis,* **Survey of Current Business,** July 1981; and **1980 Census of Population and Housing,** Report PHC80-S1-1, U.S. Department of Commerce.

states might use to pick up the current federal share of AFDC costs, it is not clear whether existing differences might not widen further and whether such a result would be acceptable politically.

Because the federal food stamp program is now uniform throughout the nation and its benefits automatically change in tandem with those under AFDC, combined benefits vary far less across the states than do AFDC payments alone. While the ratio of New York to Mississippi maximum AFDC benefits was 5-to-1, the ratio of maximum combined food stamp and AFDC benefits across these states was about 2-to-1. Although the food stamp benefits formula is nationally uniform, the expenditures vary in each state because of differing concentrations of poverty. For example, 1980 annual food stamp outlays per capita ranged from $14 in Wyoming and several other states to $78 in Mississippi. Accordingly, if responsibility to replace food stamps were assigned to the states, potential financial burdens would vary considerably. Unfortunately, those with heavy potential burdens are not generally the states with higher capacities to raise tax revenue. For example, average 1980 Mississippi per capita income was 69% of the national average compared to 115% for Wyoming.

Table 1 summarizes key state-by-state conditions related to the welfare and Medicaid issues, as well as to the fiscal equalization issue which will be discussed later.

Transfering full financial responsibility for food stamps to the states, while withdrawing the "open-ended" match formula now used under the AFDC program, would tend to produce lower benefits than are available currently. Because the federal AFDC matching rate is now preferentially high for states with low tax capacity, a turnback proposal that makes states wholly responsible for AFDC could result in greater benefit cutbacks in the states with the fewest resources to tax. For example, whereas California would lose its federal matching rate of 50%, Mississippi would lose its 77% matching rate. Nevertheless, a clear distinction can be made between the possible effects of returning only AFDC responsibility to the states and returning both full AFDC and food stamp responsibilities. Because AFDC benefits are far less uniform now than food stamp ones, the variation under full state control of AFDC is not likely to increase all that much from the present pattern. Because states are already funding at least part of AFDC, it will take fewer resources overall to provide 100% state AFDC support than to provide 100% state food stamp support. In the latter program, states currently provide practically no support; in other words, states are more likely to cut back when they must go from nearly 0% to 100% of costs, than from 50% to 100%.

Although federal retention of food stamps would allow a continued equalizing influence on benefit levels, pressure for a federal influence on AFDC-type benefit standards also may persist. The challenge under a New Federalism will be to find a point of compromise so that some federal role can be maintained, while making reasonable allowances for differences in factors like the cost of living, differing wages available from work, and concerns about excessive dependency. At least equally challenging will be the task of designing a federal role that minimizes charges of fiscal unaccountability. The federal government may want to assert a national interest in mandating "adequate" or minimum benefit levels, but can probably do so only if it maintains some fiscal participation. Standards imposed without financial participation are not likely to be acceptable politically even if other actions, such as federalizing Medicaid, free up resources. Complete turning back of either AFDC or food stamps would show less emphasis on some of the equity considerations that gave rise to federal participation in the first place. Turnbacks without standards permit greater cutbacks and encourage variation.

The approach to be used in decentralizing income maintenance responsibilities, especially AFDC, is under debate. Block grants could be used to provide clearly appropriated amounts as determined and allocated by Congress to finance welfare programs. The block grant approach would put more emphasis on fiscal accountability by ending present open-ended state cost-matching grants. Robert Carlson, in the past, has advocated this approach. In his State of the Union speech, President Reagan advocated a complete "turnback" of responsibility for AFDC to the states. Either approach decentralizes, but the latter does so more radically.

"In the case of Medicaid, President Reagan clearly altered his general view on allocating income maintenance responsibilities."

Medicaid

In the case of Medicaid, President Reagan clearly altered his general view on allocating income maintenance responsibilities by proposing that the federal government fully finance Medicaid. If Medicaid is construed as a program to insure against medical cost catastrophes, rather than as a welfare-type program, there need not be as much emphasis as under AFDC or Food Stamps on categorical eligibility determination—whether beneficiaries could obtain work or not, whether they were "truly needy" or not, and so forth. Furthermore, the federal government already has major medical responsibilities through Medicare and through its tax treatment of the employer's share of employee medical insurance.

More complete federal control in the medical field might permit greater health-care cost containment by using federal power to encourage more competition among health-care providers.

Current Medicaid expenditures among the states vary in the extreme, making the task of "federalizing" the program especially difficult. In 1980, average state Medicaid outlays per beneficiary ranged from a low of $646 in Oregon to $1,985 in New York. Average 1980 Medicaid spending on the elderly, per recipient, was 3.5 times as high in Minnesota as in Florida. The average 1980 program expense per capita ranged from $30 in Wyoming to $263 in Washington, DC.[2] These variations reflect differences in the number of potential eligibles, in health conditions, in services and groups actually covered, in cost levels, and in reimbursement policies. A more uniform federal program would undoubtedly lower benefits in some states and raise them in others.

If complete federal takeover of Medicaid means a more uniform program, states experiencing lowered benefits for their residents would be under enormous pressure to supplement the federal program. Conversely, residents of states in which benefits are now relatively low could benefit under a more expansive federal program. Without more details, it is impossible to predict with any precision how full federal responsibility for Medicaid will affect benefit levels across all the states. For example, Medicaid benefits now can depend upon whether an individual is eligible for AFDC benefits in a state. Full federal responsibility for Medicaid and full state responsibility for AFDC might sever this connection—otherwise state determinations could drive federal Medicaid costs.

A completely federalized Medicaid program could require considerable restructuring. Medicaid covers varied recipients—elderly persons with more chronic health problems as contrasted with juveniles having dental disorders—and a variety of services—acute care compared to nursing home care. Clearly, the federal financial role might be shaped differently in different health service areas or for different clientele. These thorny issues of eligibility and benefits under a fully federalized Medicaid program have yet to be worked out, nor will they be easily determined.

Treatment of Local Governments Under New Federalism

Advocates of a "New Federalism" must decide not only who is responsible for income maintenance but also who—Washington or the states—is responsible for local government problems. In particular, to what extent should state governments be given future responsibility for those local problems that up to now have been addressed by direct federal-to-local grants? Direct federal aid to the cities grew rapidly, faster than most other components of federal aid, throughout the late 1960s and most of the 1970s. As a result, in many larger cities, federal funds in the late 1970s equalled 50% of the amounts raised locally. Localities also receive federal funds that are "passed through" to them by state governments. The ACIR staff last estimated that, for 1976-77, excluding education, 20% of federal aid to state governments was passed on to local governments. When both education and public welfare federal aids are excluded, (local governments have public welfare responsibilities in only a few states), the percentage of federal to state government aid passed through was, on average, 12%.

Not only are local governments considerably reliant on federal aid, in certain states they would be affected by a realignment of responsibilities for public assistance. In 1977, the local government share of Medicaid costs exceeded 10% in three states: California, Nebraska, and New York. (The California situation has changed since 1977, however, because the state has now assumed the lion's share of Medicaid costs.) The President's proposal to federalize Medicaid could lift financial burdens from some localities but still, depending upon state responses, increase local government financing burdens in a few others, (such as in those nine states where localities fund over 10% of AFDC costs).

The issue of whether the national or state governments have primary responsibility for localities is highlighted by the President's proposal to eliminate major federal grants to cities, counties, towns and townships. Included in the list of grants that would be terminated are General Revenue Sharing, Community Development Block Grants, mass transit grants, and Urban Development Action Grants. These four grants together account for approximately 75% of all expected FY 82 direct grants to local governments, including school districts, and account for about 90% of expected totals for cities and counties, excluding AFDC and Medicaid grants. Furthermore, the CETA components and waste water treatment grants that are slated for termination go substantially to local governments either directly or through the states.

Because states are constitutionally responsible for the structure, functions, and fiscal resources of their local governments, one can argue that states should face all the dimensions of that responsibility. States already allocate major aids to local governments, assign responsibilities for public services, set the taxing authority, and control the ability to expand boundaries by annexation. State aid to local governments in the aggregate exceeds total direct federal aid to these units, although state aid is heavily concentrated in education. However, critics of the President's approach cite the record of state governments in the past and question whether state governments generally will respond reliably enough to their cities' needs. Understandably, leaders of the national public interest groups representing local officials have expressed concern. Ferd Harrison, president of the National League of Cities, called the greatest risk "that the cities will not be treated fairly or equitably by the states."

[2] Also excludes Alaska and Arizona (which did not have a Medicaid program in 1980).

Which Level Should Do What: Criteria for Decisionmaking

How you make a decision is sometimes as important as what you decide. In answering the question, which level of government should do what, how the decision is made—meaning what criteria are used to make it—is extremely important. Is it based on political factors, fiscal concerns, regard for equity, practical administrative concerns, or a combination thereof? Unfortunately for policymakers, the four major criteria are likely to conflict on any given service.

The four major criteria for sorting out who should do what and elements of each are displayed below.

In spite of the difficulties in applying all the criteria for assigning responsibility, it is clear that those who favor more diversity, less redistribution, administrative efficiency, and more fiscal accountability will favor assignment of greater financing and service responsibilities to the state and local levels. Those who emphasize uniform services, redistributive taxes and services, or a guarantee that special government services should at least be minimally available to all will emphasize service and financing at the federal level.

Our intergovernmental system, as it was conceived and now operates through grants-in-aid, seemingly reconciles competing centralist and decentralist approaches to the accountability question. Grants have been created in order to avoid making the difficult trade-offs involved in completely separating out responsibilities level by level. Yet assessments of political accountability, governmental efficiency, political effectiveness, or equity criteria in the American federal system are mixed, at best. The political responsibility for intergovernmental program operations is divided and confused. The price of eliminating such confusion is the difficulty of making harder, more clear cut choices on what levels of government should be responsible for what.—**A.J.D.**

I. **Public Finance Criteria**

A. **Production Efficiency:** Assign functions to jurisdictions that are large enough to realize economies of scale.

B. **Trade-offs Among Complimentary Services:** Assign a function to a level of multipurpose jurisdictions that can choose among the variety of service alternatives for meeting similar objectives.

C. **Optimum Levels of Service:** Assign functions to governments geographically large enough to encompass the geographic scope of benefits received and costs incurred from a public policy. If the jurisdiction is too small for the extended benefits, the service will be under-provided; if the jurisdiction is too small to encompass the full costs or adverse side effects of the program, the program will be too large. If scope of benefits and costs match, the government responsible for the service should be fully responsible for financing for it—i.e., fiscal accountability.

D. **Fiscal Capacity:** Given an assignment of taxing authority—constitutional, statutory, or de facto—assign service financing responsibility to a level with adequate taxing authority and taxing capacity.

II. **Political Criteria**

A. **Political Accountability:** Functions should be assigned to jurisdictions that are controllable by, accessible to, and accountable to their residents, to jurisdictions that maximize the conditions and opportunities for active and productive citizen involvement including full representation for minorities.

B. **Matching Desired Services to Public Preferences:** Functions should be assigned to a level that will provide diversity and a tailoring of services to community preferences. Under these circumstances, individuals will be able to pick among jurisdictions so as to best match their preferences to service and tax levels.

C. **Responsiveness:** Assign functions to levels that respond readily to changes in public preferences among types of services or taxes and their levels.

D. **Individual Freedoms:** Assign functions so that checks and balances on the power of government will operate.

III. **Equity Criteria**

A. **Redistribution of Income:** To redistribute income successfully by means of an expenditure program or tax instrument, the jurisdiction must be large enough to prevent those from whom resources would be taken from leaving and outsiders to whom resources might flow from immigrating.

B. **Minimizing Tax or Service Disparities:** Assign a function to a level and among jurisdictions so that disparities in resources with which public services can be financed will either be minimal or have minimal effects on the level of service provided.

IV. **Administrative Efficiency Criteria**

A. **Capacity:** Assign functions to levels that articulate program goals, evaluate programs, assess needs, and have adequate legal authority and management capability.

B. **Effectiveness:** Assign functions to levels that can effectively carry out the program with the least overhead and with the least amount of fraud, waste, and abuse.

"Unwinding a major portion of today's federal grant system is bound to eventually leave some states relatively better off and others relatively worse off."

Because of local sensitivity to lost or reallocated federal aid, all of the New Federalism plans employ some temporary protections for local governments. The scope of the New Federalism proposals, the length of the transition period, and the early warning offered, make it difficult for state governments to be unaware of local concerns. In addition, states might be required to provide aid to local governments nearly equal to what they had been receiving from the federal government. Discussions also have been underway concerning the "pass-through" issue.

To be guaranteed, all such protections would have to be mandated upon the states by the federal government and specified in law. How long they would apply is an issue. Given widely varying circumstances among the states, extremely different degrees to which federal aid is "passed through" and the great differences in how responsibilities are assigned among different types of local governments, designing complete protections for local governments everywhere will be most difficult.

Alternatives to the President's original proposal have been suggested. For example, some major federal-to-local grants could simply be exempted from termination. Or, a variety of federal-to-local categorical grants might be eliminated in favor of a more general method of transferring federal resources directly to localities.

Fiscal Equalization Issues

Unwinding a major portion of today's federal grant system is bound to eventually leave some states relatively better off and others relatively worse off. A large scale plan will not be acceptable to those who focus exclusively upon this issue, nor to those who will support a New Federalism only if their state will not lose any federal funds. New Federalism requires tolerance for at least small changes in states' relative conditions. Concerns can be allayed, but not eliminated, by protecting states during a transition period. After the "hold-harmless" phase, some protection could be directed to certain types of states through such devices as formula allocated revenue sharing, although none was included in President's original proposal.

Different states would ultimately be affected differently under any proposal. States vary in the savings they would realize from no longer financing Medicaid; in the financial burdens they would face in financing food stamps or AFDC; in the revenues they raise per capita from excise taxes on motor fuels, alcoholic beverages, and tobacco product sales; or the federal aid amounts they would receive from a revenue sharing formula.

ACIR staff developed computer simulations to gauge the possible magnitude of gains and losses among the states and to determine how sensitive results might be to different conditions under a New Federalism plan. In a hold-harmless stage, a trust fund would be used to minimize differences in fiscal treatment among the states. In stage two, the trust fund is either eliminated or is used for another purpose, like revenue sharing, rather than to hold states harmless. For stage one, the computer simulations verified that the trust fund could minimize winner and loser problems. In fact, the larger the scale of the New Federalism proposal, the better; the more responsibilities are turned back to the states, the more effectively the trust fund prevents winners and losers. Under the President's and Senator Durenberger's plans, the fiscal gains a state obtains by federalizing Medicaid are offset against the fiscal burdens generated by turning back AFDC and food stamps and terminating other grants. When grant terminations are large enough, as it is in these plans, the initial result is a net fiscal loss for each state. The trust fund monies are then allocated precisely to offset that fiscal loss.

A crucial factor in implementing any trust fund arrangement is how the fiscal effects upon the states will be counted. How much a state will lose from termination of Federal grants can be fairly easily estimated. However, measurement of the offsetting gain a state will obtain from federalization of Medicaid is much more difficult. During a transition phase, the federal government would probably begin to restructure Medicaid so that eligibility criteria and benefit levels would be more uniform across the states. Although state governments would have their financial responsibilities under the current program eliminated, individual state residents would be subject to changes in benefits. For example, a state with a very expansive Medicaid program could be relieved of considerable cost but its residents would find their coverage cut under the new national standards. What, then, is the proper measure of the net effect on the state as a whole?

Conversely, a state with a restrictive Medicaid program could see its state government relieved of less cost but its residents would benefit from a more generous federal program. In the first case, the state government would probably be pressured to supplement federal benefits and erode its initial savings. In the second case, the residents might be better off, but this improvement may not translate directly into an improved state budget fiscal condition. For the trust fund to prevent winners and losers, these realities would have to be reconciled while simultaneously keeping in check federal costs to operate the trust fund.

Notable Quotes on New Federalism

Senator Pete V. Domenici (NM): "This fundamental reform of our system of government is long overdue. Every effort should be made to assure its survival."

House Speaker Tip O'Neill, Jr. (MA): (It's) "part of the overall retrenchment on social policy . . . .(but the House) will not take federalism and put it under the table."

Richard Williamson, White House Director of the Office of Intergovernmental Affairs: "None of us in this Administration has any misconception that the President's federalism proposal is a magic panacea. But we are convinced it will help make government work again. It will cut administrative overhead and define precise product lines by sorting out responsibilities among the various levels of government. The President wants to make up in quality that which has been squadered in volume."

David Stockman, Director of Office of Management and Budget: "If we make the federalism initiative hostage to a balanced budget, we will have a long wait coming."

Governor Bruce Babbitt (AZ): "The President's program is revolutionary in the best American sense of the word. He deserves a chance to succeed. Congress, the governors, and state and local officials must put aside the green eyeshades and rise to the occasion."

Governor Jerry Brown (CA): "New Federalism is a bureaucratic reshuffling of responsibilities that does not address the main issues at hand, specifically a sick economy."

Governor Lamar Alexander (TN): "The currents run deeper than political maneuvering. Movements that have fed centralism in America are dissipating."

Ross Doyen, President of the Kansas State Senate: "The failure of the federal government and the resurgence of the states argue decisively for a shift of emphasis in American government. Instead of assuming, as we too often have, that programs 'belong' in Washington, let us assume instead that programs belong in state capitals unless they can be shown to require federal intervention."

Lynn Cutler, Black Hawk County, IA, Board of Supervisors: "We are all sitting here taliing about federalism in a wonderful and even practical sense. And we're not talking about what's really wrong with this country today—which is, that 9.5 million people aren't working."

David Broder, journalist: "It is hard to tell how many defeats the Democrats will have to absorb before they begin to grasp the lesson the country is trying to teach them . . . everything does not have to be run from Washington."

After the hold-harmless period, states would experience different effects under the various New Federalism, proposals. It is not yet possible to predict precisely by what dollar amounts states might be better or worse off. Those measurements cannot be made without more detailed specifications on how a fully federalized Medicaid program would work. ACIR staff did attempt such projections, not to predict how any particular state might fare, but to illustrate the possible scope of differences among the states under alternative assumptions, including those concerning the distribution of benefits under a Medicaid trade. Under the President's plan, one projection of restructured Medicaid benefits shows the standard relative fiscal displacement to be about $75 per person in 1984 dollars.[3] This shift represents a significant, but not overwhelming, amount in comparison with likely levels of personal income and state and local taxes. A few states, however, would be affected by 125% or more beyond this amount. Such jurisdictions are sometimes doubly affected, losing both very high (or low) per capita amounts of federal aid and realizing relatively small (or large) savings from federalizing Medicaid.

Rather than relying only on federal excise tax cuts to make room for the states, Senator Durenberger and the state interest groups proposed that federal trust fund amounts be allocated by formula among state governments. The revenue-sharing-type approach would allow much greater control over the distribution of New Federalism's fiscal effects than would the President's original proposal. If the trust fund became permanent, its distribution could be targeted by formula. Funds could be directed toward states with high public assistance burdens, with high burdens in other program areas, with low ability to raise tax revenues on their own, or with combinations of these factors. Under this approach, there would be less emphasis on fiscal accountability and more on equity and fiscal equalization.

Of longer-range and deeper concern than the design of a temporary hold-harmless period is whether responsibility should be further decentralized without recognizing that some states would face those greater responsibilities with relatively meager resources—the fiscal equalization problem. If one insists on 100% strict fiscal accountability, states would have to go to their taxpayers and not Washington for funds to meet their added responsibilities. Less strict accountability would allow the federal government to attend to equity concerns by directing resources toward lower capacity or higher need states.

Unless a federalized Medicaid program were both expanded considerably and selectively targeted to the low income population, turning back food stamps and and AFDC responsibilities and rolling back federal excise taxes tend, on average, to hurt states with lower fiscal capacity. This result occurs partly be-

[3] Relative displacement is measured by the population weighted standard deviation of state-by-state net per capita effects.

cause federal food stamp dollars are directed more toward lower than higher fiscal capacity states and because federal tax revenues used to finance grants are extracted more from higher than lower capacity states. Such decentralization would require lower capacity states to work harder to replace food stamp dollars and terminated federal grants. They would either have to make greater tax effort measured against their lower-than-average fiscal capacity or cut back more on programs. Among the 14 states with the lowest fiscal capacity, from four to ten could experience a loss of 5% or more relative to what they could raise from a standard set of tax rates; and, from zero to four states could gain 5% or more. "Lowest fiscal capacity" states are those with 90% or less of the average fiscal capacity per person, as measured in 1979 using the ACIR's Representative Tax System approach.[4] If, as proposed by the governors, there were no turnback of food stamp responsibilities, or resources were directed by formula to poorer states, the average effect on poorer states would be less or even turn favorable.

Current Federal Fiscal Strains and the Issue of Fiscal Balance

Concern about fiscal capacity does not focus just on state and local governments. Current economic conditions have put the federal "fisc" under great duress. Some critics fear that all the discussion about reshuffling responsibilities under the guise of New Federalism is just a way to mask large cuts in the state and local grants part of federal domestic spending. Do the New Federalism plans create a fiscal imbalance against the states? A fiscally balanced plan would neither help solve nor aggravate federal budget problems, nor would it help or hurt the state governments in the aggregate.

Fiscal balance cannot be unequivocally determined because uncertain future costs under a New Federalism have to be compared with hypothetical costs and federal grants levels that would otherwise prevail. Nevertheless, because the issue of fiscal balance has been controversial, ACIR staff made some initial projections of aggregate state gains and loses from the three initial federalism proposals. If all new federalism plans were to begin in fiscal balance on their 1984 starting dates, as originally proposed, all seem likely to protect the states from fiscal losses through 1987. This finding assumes that no substantial expansion in the grants to be terminated, other than AFDC, food stamps, and Medicaid, would otherwise take place. It further assumes that Medicaid costs would be growing faster than those to maintain real public assistance levels.

After 1987, the plans have different fiscal outcomes. Under a variety of fiscal assumptions, the Durenberger and National Governors' Association proposals soon show surpluses for the states while the Administration proposal shows interim shortfalls for the states as a whole.[5] However, depending on the rate of increase in medical costs that would be lifted from the states, the Administration plan could, sooner or later, eliminate the yearly shortfall.

Conventional wisdom holds that changing policy dramatically during times of great resource scarcity is difficult—if not impossible. Those who would lose from the change will want funds to prevent such losses. If permitted, this logic would cause the federal price tag for New Federalism to rise at a time of apparent federal revenue shortage. On the other hand, without the pressure of fiscal austerity that argues for federal budget relief, sweeping priority shifts might not be possible.

Thus, like it or not, debate over restructuring governmental roles is inexoribly interwined with debate over what the federal government can afford to do and should do. Senator Durenberger, Chairman of the Senate Subcommittee on Intergovernmental Relations and a member of the ACIR, recently commented:

> We are wasting our time pretending that we can balance the budget without making policy changes. As the Congressional Budget Office has reported, current policies mean that the budget is permanently out of balance and that the deficits grow year by year. Scraping together a few revenue enhancers and denying cost-of-living increases for this year and next do not restore the underlying balance to the budget process.[6]

Conclusion

As of this writing, the struggle over New Federalism has just been joined. No negotiated legislation has been introduced and the Congress has barely been heard from. What emerges from the congressional crucible will undoubtedly be diffrent from any public-interest-group-supported legislation the Reagan Administration might negotiate. The issues are simply too great for Congress not to express itself: should there be a more limited federal domestic role with some responsibilities turned back to the state and local levels? Should federal taxes be raised or other parts of the budget cut? Are high and rising federal deficits a less dangerous course? Do the advantages of a funding retreat more than offset the public good that might be achieved by the federal government assuming greater responsibilities in domestic functions?

The accountability and efficiency themes so strong in New Federalism proposals tap strong currents of

[4]For an explanation of the approach, see a companion article in this **Perspective.**

[5]This finding, under the President's original proposal, partly results from a view that the phase-out of the federal windfall profits tax on oil, already scheduled by law, does not constitute New Federalism-related assistance to states. Furthermore, the distribution of the oil production tax base is concentrated in only a few states. The proposed roll back in federal excise tax rates on motor fuel, alcoholic beverages, tobacco products, and telephone calls was, on the other hand, counted as a plus for states as a whole.

[6]**Washington Post,** editorial section, April 16, 1982.

"The accountability and efficiency themes so strong in New Federalism proposals tap strong currents of public support but Congress will not forget the equity and effectiveness themes that prompted expansion of their role in the first place."

public support but Congress will not forget the equity and effectiveness themes that prompted expansion of their role in the first place. Congress will certainly pause before enacting a proposal that sweeps away much of the power it exercises through the federal grant system. Congressional skepticism abounds about both the capacity and willingness of state and local governments to operate as envisaged in New Federalism. At the mid-winter meeting of the National Governors' Association, Speaker O'Neill questioned the efforts of "this President to send most of society's problems back to the states."

"I believe there needs to be an orderly sorting out of which government does which job the best," the Speaker said. But, he felt some problems were clearly federal responsibilities. "Poverty is not a problem of one state or another. Congress must look at problems like poverty that cross state lines." He chastised the governors: "If we turn it over to you, can you handle it? I hear different stories from different people."[7]

In a 1982 Congress preoccupied with other problems, New Federalism legislation will probably make *little headway. However, the issue of changing* national spending priorities, and of reducing deficits will still *weigh heavily on Congress in 1983. By that* time, additional options may emerge that will make New Federalism seem more an opportunity than a distraction.

- ☐ A New Federalism plan could be struck that is not balanced within itself but purposefully designed to help balance the federal budget. Such an imbalance would have to be weighed by states and localities against the cuts in grants that might otherwise have to be taken in a time of federal budget stress. States and localities might have some of their equity and resource worries addressed by provisions for new-formula-revenue-sharing, block grants, or a combination of the two. They might end up with fewer dollars than in the best of times, but with more discretion over those available. Changes could even be made without necessarily involving the major income maintenance programs.
- ☐ A new intergovernmental compromise on the old "welfare problem" could be struck by assigning added AFDC responsibilities to the states, along with related resources that carry some safeguards or minimum welfare program standards. On the whole, the federal level could produce a more uniform welfare and medical care system that it does now, if it is willing to draw back its exercise of power in other areas such as education, transportation, social services and the like.
- ☐ Instead of pushing for an overall plan to return "tax authority" and decentralize responsibilities, the President can meet his accountability and efficiency goals by persuading Congress to further cut and eliminate grants as he did in 1981. A New Federalism plan offers both Congress and the President a way to make comprehensively formulated and orderly domestic spending changes while consulting state and local governments.

The attitude of the Congress, the mood of the people, and the overall state of the American economy will all play major roles in determining how equity, accountability and efficiency concerns get balanced out in New Federalism. With so many elements still underdetermined, the question of a new day for federalism remains just that—a question.

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[7] As reported in the **Washington Post**, February 23, 1982.

Rich States— Poor States: Inequalities in Our Federal System

by Robert B. Lucke

One important consideration in moving to a more decentralized system of government as envisioned under the New Federalism is the difference between the rather extraordinary tax wealth of some states and the relatively anemic resources of others. The latest ACIR study on the tax capacity of the 50 states illustrates significant and growing disparities in their ability to raise revenue.[1] For example, Alaska has three times the capacity to finance public services as Mississippi. In the past, these differences in taxing capacity were "papered over" by an expensive federal grant system. The dramatic realignments called for in various New Federalism proposals, coupled with shrinking federal grants, have raised the issue of how federal fiscal resources should be distributed among the states.

Both the National Governors' Association (NGA) and Senator David Durenberger (MN), Chairman of the Senate Subcommittee on Intergovernmental Relations, have stressed the need to provide fiscal equalization grants to poorer states as part of reorganizing programmatic responsibilities among government levels. Senator Durenberger summed-up the problem and his solution: "Large disparities create wasteful tensions in a federal system. . . .[Although] complete equalization is beyond the reach of federal resources . . . some movement in that direction can and should be accomplished in the allocation of the new federalism trust fund."[2] Others agree. Journalist Neal Peirce recently commented: "This is an issue many of us have long wanted to see out in the open, lest wealth differentials tear at our national unity and cause immense hardships for some states and regions in the coming years."[3]

While the targeting of trust fund allocations to the poorer states was not emphasized in the initial New Federalism proposal set forth by the President, the Administration and state and local officials are currently exploring this possibility. A compromise might find the Administration agreeing to equalization as a quid pro quo for achieving its federalism and budgetary objectives. Federalism initiatives may be more readily reconciled with tighter federal budgets in the years ahead if federal grants are targeted to those jurisdictions with the least ability to provide services from their own revenue sources.

Measuring Fiscal Disparities

Measuring differences among states in their abilities to raise revenues—or fiscal disparities—has long attracted the interest of economists, government analysts, and policymakers. Traditionally, a state's ability to raise revenue has been gauged by the per capita income of its residents. As an indicator of fiscal capacity, however, per capita income has been criticized because it does not completely account for all the sources available for state tax purposes. This shortcoming is particularly true for the energy-rich states, such as Alaska, Texas, Louisiana, and Wyoming or the tourist-rich states, such as Nevada and Hawaii, which can tap resources not strongly related to their respective state per capita incomes. Income is also an inadequate measure for farm states that have large amounts of real property and for those states that have a relatively large concentration of corporate activity. Overall, per capita income is a better measure of the economic well-being of a state's residents than of a government's ability to raise revenue. The ACIR has long been interested in developing

[1] ACIR, **Tax Capacity of the Fifty States: Methodology and Estimates,** M-134, Washington, DC, U.S. Government Printing Office, March 1982. A statistical report presenting preliminary estimates for 1980 is also available from ACIR, $2 prepaid.

[2] Dave Durenberger, "Basic Principles for a New Federalism," released February 2, 1982.

[3] Neal Peirce, speech on the New Federalism before the National Center for Municipal Development, March 24, 1982.

a more comprehensive measure of fiscal capacity and recently stated its support for a measure, such as the Representative Tax System (RTS), that would provide a more accurate reflection of a state's ability to raise revenue from all sources.[4]

The Representative Tax System provides a comprehensive measure of each state's overall tax base by combining all sources of tax revenue, such as property, income, retail sales, and minerals, into a composite index of state tax capacity. The index is calculated by estimating the amount of revenue that each state would raise if it used an identical set of tax rates. The rates used for the calculation are "representative" in the sense that they are the national average tax rates for each base. Because the same tax rates are used for every state, estimated tax yields vary only because of differences in the underlying bases.

All bases commonly subject to state and local taxation are used in the RTS measure of tax capacity. The representative tax rates are applied in every state regardless of whether a given state actually taxes a particular base. For example, Connecticut does not have an income tax, but income is included in Connecticut's tax wealth; similarly, Oregon does not have a retail sales tax, but retail sales are included in its tax capacity computation. An individual state's decision to stress one type of tax or another does not affect the measurement of its tax base and potential "tax wealth" relative to other states.

The Representative Tax System shows that states differ significantly in their abilities to raise revenues. The first two columns of *Table 1* present the RTS measure of tax capacity in dollars per capita and as an index for 1980. Alaska ranks as the wealthiest state based on this measure—its tax capacity is $2,463 per capita and its index of 260 is 160 percentage points greater than the national average. These levels are more than three times greater than Mississippi's—$658 per capita and an index of 69. Other states high on the tax capacity scale are Wyoming (196), Nevada (154), Texas (124), and California (117). The low capacity states are found in the southeastern part of the country: Mississippi (69), South Carolina (75), Alabama (76), Arkansas (79), and Tennessee (79)—all have tax capacities less than 80% of the national average. In general, the western states, especially those well endowed with mineral resources, have capacities greater than those in the east.

Is The Fiscal Gap Widening?

The tax capacity indices presented in *Table 1* for 1975, 1979, and 1980 show that fiscal disparities among the states are becoming greater. One summary measure of the overall disparities among the states is the population-weighted standard deviation of the tax capacity indices. The standard deviation of the tax capacity indices measures the relative dispersion of

[4]ACIR Commission meeting, March 29, 1982.

Table 1

Tax Capacity of the States—1975,1979 and 1980.

State	Tax Capacity Per Capita	Tax Capacity Index 1980p	1979r	1975r
New England				
Connecticut	1,058	112	108	110
Maine	759	80	80	84
Massachusetts	913	96	93	98
New Hampshire	916	97	96	102
Rhode Island	795	84	84	88
Vermont	801	84	85	94
Mideast				
Delaware	1,057	111	109	124
Washington, DC	1,051	111	110	117
Maryland	941	99	99	101
New Jersey	997	105	102	109
New York	855	90	89	98
Pennsylvania	879	93	93	98
Great Lakes				
Illinois	1,021	108	112	112
Indiana	875	92	98	98
Michigan	920	97	104	100
Ohio	918	97	101	103
Wisconsin	899	95	99	98
Plains				
Iowa	998	105	108	106
Kansas	1,032	109	109	109
Minnesota	969	102	105	97
Missouri	888	94	97	96
Nebraska	918	97	100	106
North Dakota	1,028	108	109	101
South Dakota	856	90	95	94
Southeast				
Alabama	718	76	76	77
Arkansas	750	79	77	78
Florida	949	100	100	102
Georgia	778	82	81	86
Kentucky	787	83	85	85
Louisiana	1,036	109	103	97
Mississippi	658	69	70	70
North Carolina	754	80	82	84
South Carolina	714	75	76	77
Tennessee	749	79	81	84
Virginia	899	95	93	93
West Virginia	889	94	92	89
Southwest				
Arizona	841	89	91	92
New Mexico	1,016	107	103	92
Oklahoma	1,108	117	108	98
Texas	1,173	124	117	110
Rocky Mountain				
Colorado	1,069	113	110	106
Idaho	830	87	91	89
Montana	1,067	112	113	103
Utah	816	86	87	86
Wyoming	1,862	196	173	153
Far West				
California	1,110	117	116	110
Nevada	1,465	154	154	145
Oregon	979	103	106	100
Washington	976	103	103	98
Alaska	2,463	260	217	154
Hawaii	1,011	107	103	110
U.S. AVERAGE	949	100	100	100
Standard Deviation:	$ 149	15.7	13.7	10.4

p = preliminary r = revised

Source: Advisory Commission on Intergovernmental Relations.

the states around the national average. A high standard deviation indicates greater fiscal disparities than a low standard deviation. The change in fiscal disparities over time is reflected by the growth of the standard deviation of the indices from 10.4 in 1975, to 13.7 in 1979, and to 15.7 in 1980. Over the 1975-80 period, disparities increased by 52%. In general, the poorer states have not shown improvement since 1975, and in fact, many of the southern states, such as Mississippi, Alabama, and South Carolina, have seen their relative capacities slip. The greatest declines between 1975 and 1980, however, occurred in the northeastern and midwestern states. Delaware, Vermont, Nebraska, and New York experienced the largest declines. In contrast, the greatest growth in tax capacity occurred in the western states, particularly the energy-rich states of Alaska and Wyoming. Alaska's increase was not surprising due to its rapid entry into the club of large oil producing states.

The growing gap between rich and poor states is not so apparent when per capita income is used to measure capacity. For some time now, economic activity and population movements have tended to converge per capita income levels across the country. However, since the mid-70s, increased state revenues from nonincome-related sources have tended to make per capita income an even less reliable measure of tax capacity.

The National Interest in Fiscal Equalization

Fiscal equalization as an issue arises in the debate over new federalism because of the growing fiscal disparities among states. Fiscal disparities arise because economic growth and prosperity are not shared equally across jurisdictions. Furthermore, with individual subfederal units of government responsible for financing the public services they provide, disparities in capacity can result in differences in the quantity and quality of public services offered and in the tax rates necessary to provide them.

Historically, the redistribution of revenue from wealthy to poor governments has been justified on equity grounds. In 1964 the ACIR concluded that the objective of fiscal equalization is:

> to achieve a national minimum level of program operations by varying the federal grant offer to the states directly in proportion to their program needs and inversely with their fiscal capacities. The objective is to enable all states to achieve the nationally defined minimum service level if they make a uniform effort to tax resources available to them.[5]

The equity rationale is primarily based on two arguments, both of which have been emphasized in the debate over school finance reform. The first argument is that some communities, by virtue of their wealth, are able to finance a much higher level of educational services than their less wealthy counter-

Table 2

The Impact of Grants on Fiscal Disparities

State	Tax Capacity Index	Tax Capacity Plus GRS	Tax Capacity Plus all Grants
New England			
Connecticut	112	111	106
Maine	80	81	91
Massachusetts	96	97	105
New Hampshire	97	96	96
Rhode Island	84	84	97
Vermont	84	85	111
Mideast			
Delaware	111	112	113
Washington, DC	111	112	234
Maryland	99	99	102
New Jersey	105	105	103
New York	90	91	104
Pennsylvania	93	93	94
Great Lakes			
Illinois	108	107	105
Indiana	92	92	87
Michigan	97	97	100
Ohio	97	97	92
Wisconsin	95	95	99
Plains			
Iowa	105	105	100
Kansas	109	108	103
Minnesota	102	102	100
Missouri	94	93	92
Nebraska	97	97	94
North Dakota	108	108	116
South Dakota	90	91	111
Southeast			
Alabama	76	76	84
Arkansas	79	79	86
Florida	100	100	92
Georgia	82	82	90
Kentucky	83	83	88
Louisiana	109	109	105
Mississippi	69	70	84
North Carolina	80	80	81
South Carolina	75	76	79
Tennessee	79	79	83
Virginia	95	95	92
West Virginia	94	94	102
Southwest			
Arizona	89	89	85
New Mexico	107	107	114
Oklahoma	117	116	108
Texas	124	123	108
Rocky Mountain			
Colorado	113	112	105
Idaho	87	88	93
Montana	112	112	125
Utah	86	86	90
Wyoming	196	194	185
Far West			
California	117	117	110
Nevada	154	153	140
Oregon	103	103	108
Washington	103	102	103
Alaska	260	258	267
Hawaii	107	107	111
U.S. Average	100	100	100
Standard Deviation:	15.65	15.28	14.24

Source: Advisory Commission on Intergovernmental Relations

[5] ACIR, ***The Role of Equalization in Federal Grants***, A-19, Washington, DC, U.S. Government Printing Office, 1964, p. 4.

parts. Thus, fiscal disparities not only reflect current differences in the abilities of communities to support public services, but they can have lasting effects on individual citizens through the unequal educational opportunities or other services they may receive across jurisdictions. Because government services, such as education or health, contribute to the earning potential of the recipient, current disparities in the ability to finance public services can contribute to differences in individual income levels well into the future. Therefore, fiscal equalization grants are a way of providing more equal access to government services, particularly to the less privileged segments of the population residing in the poorer states.

Equity concerns also arise from the fact that taxpayers can face substantially different tax rates for a given package of services simply because of their place of residence. Because poorer jurisdictions often must levy higher tax rates than their wealthier counterparts to provide the same level of services, individuals with like incomes will pay different amounts in taxes depending on the jurisdiction in which they reside. In the classic school finance case, **Serrano v. Priest,** the plaintiffs illustrated that poor school districts often had much higher tax rates than their wealthier counterparts, yet raised much less revenue.[6] The tax capacity indices in *Table 1* indicate that a low capacity state like Mississippi could only raise 69% of the revenue of the average state, even if both imposed identical tax rates. Equity suggests that equalizing grants should be used to equalize the tax burdens or tax prices associated with like levels of public services. In the educational finance literature, this form of equalization system is commonly referred to as "district power equalization," because it equalizes the tax power of the school districts.[7] In other words, the equalizing grants are distributed to school districts in such a way that each district would have the same amount of revenue per pupil if each were to levy the same tax rate.

In addition to equalizing taxpayer burdens for comparable levels of spending, equalization grants can promote economic efficiency by inhibiting the migration of labor and production facilities based purely on fiscal considerations. By reducing differentials in tax rates per unit-of-service across jurisdictions that arise strictly from fiscal disparities, equalization grants can offset the tendency of labor and capital to move to high capacity areas to take advantage of lower tax prices. Indeed, one of the primary arguments advanced by Senator Durenberger for equalizing grants is that "[e]conomic relocation driven by the individual desire to avoid high taxes in low capacity states contributes to an inefficient allocation of social resources."[8]

Of course, locational decisions regarding labor and investment are not only based on tax price variations, but on the real economic advantages of one area over another as well. For example, wage rates, energy prices, and transportation facilities substantially differ across jurisdictions and will have a significant effect on the locational decisions made by businesses and individuals. Care must be taken to assure that a system of equalization grants does not go beyond correcting for disparities in capacities so that real (nonfiscal) differences in regional comparative advantages can continue to influence resource flows.

The Role of Grants in Achieving Fiscal Equalization

The United States, unlike a number of other federal countries, does not have a program specifically designed to reduce fiscal disparities among its states. Although General Revenue Sharing (GRS) provides payments with few strings, the program is relatively small and only modestly equalizes disparities. Most fiscal assistance to state and local governments in the U.S. takes the form of categorical or block grants. To some extent, the federal intergovernmental aid system does achieve a degree of equalization by using allocation formulas that are sensitive to a state's fiscal capacity. Per capita income is used as a proxy for fiscal capacity in a number of grant programs, including GRS, Medicaid, and Aid to Families with Dependent Children (AFDC). Because the per capita income measure is used in combination with other factors, the equalization power of these programs is limited. For example, using tax effort, urban population, or programmatic expenditures in federal aid formulas partially offsets the effects of per capita income in equalizing fiscal resources.

To gauge the equalization effectiveness of current grant allocations, the amount of federal aid each state receives was added to the state's tax capacity in *Table 2*. The change in state tax capacity after the addition of these payments provides an indication of how well the grant system functions as an equalizer.

The set of indices in column 2 of *Table 2* is based on the RTS for 1980, plus General Revenue Sharing allocations. The GRS payments had very little effect on the individual state indices, only reducing the standard deviation by 2.4%, from 15.65 to 15.28. Based on the RTS measure of tax capacity, it appears that the fiscal equalization aspects of the program are relatively weak. Indeed, had the GRS allotments been based on a purely per capita basis, the standard deviation (15.32) would have been virtually the same as the standard deviation calculated under current law. Although the program is designed to achieve goals other than equalization, the equalizing attributes of the existing GRS formula are equivalent to an allocation based solely on population.

The third column of *Table 2* shows the indices of capacity after **all** federal intergovernmental transfers are accounted for, including GRS. In FY 1980 these grants totaled $90 billion, or $395 per capita.[9] The

[6] **Serrano v. Priest,** C.3d 584, 487 P.2d 1241 (1971).

[7] Robert D. Reischauer and Robert W. Hartman with assistance of Daniel J. Sullivan, **Reforming School Finance,** Brookings Institution, Washington, DC, 1973.

[8] Dave Durenberger, *op. cit.*

[9] U.S. Department of the Treasury, **Federal Aid to the States, Fiscal Year 1980,** Washington, DC, U.S. Government Printing Office, 1981.

Clearly, federal aid programs are designed to meet objectives other than fiscal equalization and their weak equalizing performance bears this out.

equalizing effect of all grants is indicated by a reduction in the standard deviation to 14.24, a decrease of 9% from the initial level. While this equalizing impact is greater than that of GRS alone, it is still less than if all grants were distributed on a per capita basis. If all intergovernmental aids were allocated solely on the basis of population, the measure of disparities would decline to 11.05, about 22% lower than under the existing distribution. In other words, about 22% greater equalization could be achieved under a per capita distribution than under the current set of allotments. Clearly, federal aid programs are designed to meet objectives other than fiscal equalization and their weak equalizing performance bears this out.

Fiscal Equalization in Other Federal Systems

In other countries with a federal structure, fiscal equalization has been a traditional function of the national government. In West Germany, Australia, and Canada, the national government provides fiscal equalization grants to lower levels of government to compensate for the fiscal disparities that exist among them. These equalization payments are typically unconditional and are designed to enable the fiscally weak governments to finance adequate levels of public services.

Australia has a comprehensive system of fiscal equalization that takes into account both the fiscal capacity of the states and differences in the costs of providing public services. The Australian system of equalization essentially measures "revenue need" as the difference between the revenue the recipient state would have raised had it applied the average revenue effort of the standard states to its revenue base and the revenue it would have generated, on the basis of the standard revenue effort, if its per capita revenue base had been the same as the average revenue base of the standard states. Expenditure needs are assessed by the difference between the expenditure the recipient state would have incurred if it had provided the same average range and quality of services as the standard states and the expenditure it would have incurred if its per capita expenditure had been the same as the average of the standard states. Total assessed needs are measured by the sum of assessed revenue and expenditure needs, representing the recipient state's shortfall in revenue-raising capacity relative to the standard states and its additional costs to provide services comparable to those of the standard states. The standard states in this program are the two states with the highest fiscal capacity, thus providing a much higher standard of equalization than that used in other federal countries.[10]

The West German system of equalization grants consists of two distinct parts—"vertical" equalization payments from the national government to the states, and "horizontal" equalization payments directly from the rich states to the poor states. The vertical transfers used by West Germany are based on its value added tax and are allocated to each state's tax revenue to bring up the capacities of the poorer states to 92% of the national average. After taking into account the vertical transfers, the states negotiate direct transfers between themselves that are designed to bring up the capacities of the poorer states to nearly the average for all states.

The Canadian equalization program distributes grants only to those provinces having capacities below the national average; these are not provided to provinces with above average capacity. The grants are meant to equalize capacities so that each and every province can provide the average level of public services at average rates of taxation.

The Canadian system of equalization is of particular interest to the U.S. because the Canadian federal government provides fiscal equalizing transfers to the provinces based directly on the Representative Tax System measure of fiscal capacity. In FY 1979, the Canadian equalization program, as outlined in the 1977 Fiscal Arrangements Act, distributed $2.9 billion to seven provinces which together have 45% of Canada's population. The three other provinces received nothing under this program.

[10] ACIR, **Studies in Comparative Federalism: Australia**, M-129, Washington, DC, U.S. Government Printing Office, August 1981, pp. 17-26.

Table 3

Canadian Representative Tax System Yields, FY 1979

Province	Capacity Per Capita	Index*	Index after Equalization under Current Law
Alberta	$3,931.62	232	217
British Columbia	1,948.66	115	107
Manitoba	1,306.56	77	88
Newfoundland	971.03	57	85
New Brunswick	1,058.32	63	85
Nova Scotia	1,090.06	64	85
Ontario	1,573.19	93	87
Prince Edward Island	930.07	55	84
Quebec	1,335.81	79	87
Saskatchewan	1,739.23	103	98
Average	$1,691.47	100	100
Standard Deviation: (population-weighted)	$ 715.66	42.31	35.80

*Index is percent of national per capita average

Source: Federal-Provincial Relations Division, Department of Finance, Government of Canada, *Provincial Fiscal Equalization, Fiscal Calculation, 1978-79*, Printout, April 7, 1981.

The equalization payment provided to a province equals the difference between its fiscal capacity and the national average capacity. For example, in FY 1979-80, Manitoba's Representative Tax System yield was $1,101.38 per capita and the national average yield was $1,383.60 per capita. Manitoba's equalization payment was $282.22 ($1,383.60 less $1,101.38 times its population to get a total $291.7 million grant. The payments are financed out of general federal revenues and unlike West Germany, there are no "negative aids" paid by those provinces with greater than average capacity. The provinces are brought up to the national average but the system is asymmetric because it does not reduce the capacity of the wealthy provinces.

The effectiveness of the Canadian equalization program can be appraised by how well it reduces fiscal disparities among the provinces. The FY 1979 representative tax yield or tax capacity for each of Canada's provinces is shown in *Table 3;* capacity is shown on a per capita basis, and indexed to the national mean. The indices range from a high of 232 for Alberta to a low of 55 for Prince Edward Island, indicating that Alberta has more than four times the revenue capacity of the poorest province. Regionally, the three western provinces (Alberta, British Columbia, and Saskatchewan) rank well above those in the east. Although the most populous province, Ontario, ranks above average on the nonmineral resource sources of revenue, its relative disadvantage on the natural resource base pulls its overall index below the average. The Maritime provinces (Newfoundland, New Brunswick, Nova Scotia, and Prince Edward Island) are the weakest fiscally.

In 1979, the standard deviation computed prior to the inclusion of equalization payments was 42.3. The average yield of the RTS was $1,691 per capita, with a standard deviation of $716. The third column in *Table 3* shows the capacity indices after equalization payments have been added to each province's capacity. After equalization payments are counted, all provinces, except Ontario, have capacities closer to the mean. Because the wealthy provinces are not required to finance payments directly to the less prosperous jurisdictions, equality is not achieved. However, with the exceptions of Alberta and British Columbia, all provinces fall within a 15 point range from 84% to 98% of the national average after accounting for equalization grants. Disparities are significantly lessened with the standard deviation dropping to 35.8, a 15.4% reduction. The equalization program is especially important to the Maritime provinces whose capacity index, taken as a group, is increased from 61.5 to 84.5, a rise of 37.3%. Because Ontario has been excluded from the equalization program, although technically qualifying, its capacity falls from 93.0 to 86.7 after equalization.

U.S. Fiscal Equalization, Canadian Style

As part of the ACIR staff's analysis of New Federalism issues, a simulation has been conducted to ana-

Table 4

Equalization Grants Based on the Representative Tax System

State	Fiscal Equalization Grant ($000)	Tax Capacity Per Capita After Equalization	Tax Capacity Index After Equalization	Percentage Change in Tax Capacity Index After Equalization
New England				
Connecticut	$ —0—	$1,058	106	−5.4%
Maine	213,716	949	95	+18.2
Massachusetts	207,877	949	95	− 1.6
New Hampshire	30,631	949	95	− 1.9
Rhode Island	146,220	949	95	+13.0
Vermont	75,533	949	95	+12.0
Mideast				
Delaware	—0—	1,057	105	− 5.4
Washington, DC	—0—	1,051	105	− 5.4
Maryland	32,635	949	95	− 4.6
New Jersey	—0—	997	99	− 5.4
New York	1,645,786	949	95	+ 5.0
Pennsylvania	833,849	949	95	+ 2.2
Great Lakes				
Illinois	—0—	1,021	102	− 5.4
Indiana	406,063	949	95	+ 2.6
Michigan	267,137	949	95	− 2.4
Ohio	327,846	949	95	− 2.3
Wisconsin	236,197	949	95	− 0.1
Plains				
Iowa	—0—	998	100	− 5.4
Kansas	—0—	1,032	103	− 5.4
Minnesota	—0—	969	97	− 5.4
Missouri	299,855	949	95	+ 1.1
Nebraska	47,838	949	95	− 2.2
North Dakota	—0—	1,028	103	− 5.4
South Dakota	64,524	949	95	+ 4.9
Southeast				
Alabama	899,318	949	95	+25.0
Arkansas	456,384	949	95	+19.8
Georgia	934,767	949	95	+15.4
Florida	—0—	949	95	− 5.4
Kentucky	592,947	949	95	+14.1
Louisiana	—0—	1,036	103	− 5.4
Mississippi	735,150	949	95	+36.5
North Carolina	1,144,568	949	95	+19.0
South Carolina	734,679	949	95	+25.8
Tennessee	917,520	949	95	+19.8
Virginia	266,192	949	95	− 0.1
West Virginia	117,156	949	95	+ 1.0
Southwest				
Arizona	292,676	949	95	+ 6.7
New Mexico	—0—	1,016	101	− 5.4
Oklahoma	—0—	1,108	111	− 5.4
Texas	—0—	1,173	117	− 5.4
Rocky Mountain				
Colorado	—0—	1,068	107	− 5.4
Idaho	112,335	949	95	+ 8.2
Montana	—0—	1,067	106	− 5.4
Utah	194,843	949	95	+10.1
Wyoming	—0—	1,862	186	− 5.4
Far West				
California	—0—	1,110	111	− 5.4
Nevada	—0—	1,465	146	− 5.4
Oregon	—0—	979	98	− 5.4
Washington	—0—	976	97	− 5.4
Alaska	—0—	2,463	246	− 5.4
Hawaii	—0—	1,011	101	− 5.4
U.S. Total	12,234,256	1,003	100	0.0
Standard Deviation:	—	106	10.54	—

Source: Advisory Commission on Intergovernmental Relations.

Simply put, the $12.2 billion program could buy 3.75 times more fiscal equalization than that achieved currently by the entire $90 billion aid system.

lyze the implications of adopting a Canadian-type equalization program in the United States. In conjunction with a decentralization of programmatic responsibilities, an equalization program might improve the flexibility of state and local governments and temper the impact of cuts on the governmental entities with the least capacity to raise their own revenues. The 1980 RTS estimates provide an opportunity to assess the equalizing impacts of such an approach.

Although the U.S. and Canadian federal systems have many similarities and face common problems, important differences do exist. One difference is that the disparities between the American states are not as great as those between the Canadian provinces. The standard deviation of the tax capacity measure prior to the inclusion of any grants in the U.S. is 15.65—only 37% of the comparable Canadian measure. Even after the Canadian equalization payments are taken into account, the U.S. standard deviation is still just 44% of the Canadian index. This result is a little surprising; because Canada is composed of ten provinces rather than 50 states, one might expect that disparities among the provinces would tend to average-out because of their large size.

The relative disadvantage of the poorer states is not as severe as that of their counterparts in Canada. Four provinces (Newfoundland, Prince Edward Island, Nova Scotia, and New Brunswick) rank well below the poorest of the states. Combined, these provinces have a capacity index of 61.54—8.9% less than Mississippi's index. These poorer provinces account for about 9.5% of Canada's population. After equalization, however, the poorest provinces all rank as high (or higher) than the low tax capacity American states if all domestic aids are included.

The results of a simulation based on the Representative Tax System under the Canadian approach are presented in *Table 4*. The equalization program would only provide aids to the 28 states whose capacity is below the national norm. New York ($1.6 billion), North Carolina ($1.1 billion), and Alabama $0.9 billion) would receive the largest equalization grants. In general, the states in the southeast region would benefit most from such a program. As a group, these states would receive more than half the total funds appropriated for equalization. By using this approach, the overall cost of such a program in FY 1980 would have been about $12.2 billion or about 14% of all federal aid provided to state and local governments in that year.

The impact on disparities from a Canadian-type program would be quite substantial. The indices in *Table 4* are based on the RTS measure of tax capacity, including the simulated equalization payments while excluding all other federal aids. Because negative aids are not assessed, many states are below the average capacity after the equalization grants, although none falls below its initial capacity level.[11] The reduction in the standard deviation from 15.65 to 10.54, a decrease of 33%, indicates that disparities would be reduced by about one-third. In contrast to the existing aid structure, the reduction in disparities would be significantly greater under the Canadian-style program (-33% versus -9%). Simply put, the $12.2 billion program could buy 3.75 times more fiscal equalization than that achieved currently by the entire $90 billion aid system. While the high capacity states of Alaska (246), Wyoming (186) and Nevada (146) would remain well above the rest of the states, their advantage would be reduced. The remaining states would all fall within a 24-point span.

Toward a New Federalism

The Reagan Administration's proposals to restructure our federal system have sparked a serious debate over the viability of the intergovernmental grant system. Despite—or perhaps because of—the dramatic increase in federal aid to state and local governments over the last two decades, little attention has been paid to differences in the ability of state and local governments to raise their own revenues. ACIR's recent research shows that disparities among states in their revenue raising capacities are increasing and that the current federal grant-in-aid system only modestly equalizes these differences. Now, as a major restructuring of programmatic responsibilities is being considered, it is timely to ask whether more attention should be directed to assisting the fiscally weakest states.

This article has highlighted the Canadian method of providing targeted assistance to the poorer states through use of the Representative Tax System. Of course, this approach is only one of the many possibilities that will be considered in the course of the debate over New Federalism. The purpose of this article is not to advocate a particular form of equalization, but rather to illuminate some of the underlying issues and concerns over the growing fiscal disparities among our 50 states, a development some feel may well pose one of the thorniest intergovernmental problems in the 1980's.

Robert B. Lucke was an analyst in ACIR's Taxation and Finance Section.

[11] The initial capacity per capita equals $948.73; after equalization the average capacity equals $1,002.59. Because states are only equalized up to $948.73, their resulting index is 95 [948.73/1002.59] and not 100. The difference ($53.86) is solely due to the added equalization payments.

ACIR News

S. Kenneth Howard Named ACIR Executive Director

S. Kenneth Howard, Budget and Planning Director for the State of Wisconsin, was appointed ACIR Executive Director by a unanimous vote of the Commission March 29.

Dr. Howard has been active in intergovernmental relations for the past 20 years, serving in various capacities at state, county and city levels. Before going to Wisconsin in 1978, he was budget officer for the State of North Carolina; professor of political science and assistant director of the Institute of Government, University of North Carolina at Chapel Hill; and assistant professor of political science and director of the Public Administration Service, University of New Hampshire. He has also been a consultant to a number of local governments.

Dr. Howard has been president of the National Association of State Budget Officers; was an original member of the Intergovernmental Science, Engineering and Technology Advisory Panel of the White House Office of Science and Technology Policy; is chairman of the Budgetary and Accounting Relationships Task Force of the State Accounting Project, Council of State Governments; and was chairman of the Local Government Accounting Project of the North Carolina Local Government Commission. He has also served as an elected member of the Chapel Hill-Carrboro City Board of Education.

The new Director is the author of a number of books and articles on state budgeting, planning and local finance. His text, **Changing State Budgeting,** published by the Council of State Government in 1973, is considered a classic in the field. Most recently, Dr. Howard wrote "State Budgeting" for the Book of the States 1980-81, edited **Change and Governance: State Strategy Choices** (published by the National Association of State Budget Officers, 1980), and contributed "Governors, Taxpayer Revolts and Budget Systems" printed in **State Government** (Summer 1979 issue).

He earned a bachelor's degree at Northwestern University and an MPA and PhD from Cornell University.

Dr. Howard assumed his duties as executive director in mid-May. He replaces Wayne F. Anderson who left in January to assume the post of Secretary of Administration and Finance for the Commonwealth of Virginia.

ACIR Urges Regulatory Reform, Supports Tax Capacity Measure

At its March 29 meeting, the ACIR adopted a number of recommendations designed to reduce the federal regulatory burden on states and local governments. It also endorsed the use of a fiscal capacity index, such as the representative tax system, to measure states' capacity.

In the first of what will be a series of recommendations on federal intergovernmental regulation, the Commission urged that "the federal government strive to confine its regulation of state and local governments . . . to the minimum level consistent with compelling national interests." Federal intergovernmental regulation may be warranted to protect basic political and civil rights, to ensure national defense, to establish uniform or minimum standards, to prevent particularly adverse state and local actions, or to assure essential integrity in the use of federal grant monies. Even when these "tests" of federal regulatory intervention are met, the Commission warned, a clear and convincing demonstration must be made that federal action is necessary and that state and local governments are unable to address the problem at hand.

It also called for the repeal of crossover sanctions, where failure to comply with provisions in one law may result in the loss of federal aid under other specified programs. A good example of this type of regulation is the 55 mph speed limit. As originally designed, failure to adopt the limit resulted in the loss of a state's entire federal highway aid.

Other recommendations adopted by the Commission meeting as a committee-of-the whole are subject to the approval of the Commission at its next meeting July 14. These recommendations called for:

- ☐ greater federal-state cooperation and increased state flexibility in administering partial preemption programs under which minimum federal standards are established but states are allowed to adopt or continue to use standards that are at least as high as the national ones;
- ☐ increased participation by state and local officials from the earliest stages in developing federal rules and regulations affecting their jurisdictions;
- ☐ analyses detailing the fiscal and nonfiscal impacts of all major rules affecting state and local governments; and,
- ☐ enactment of legislation requiring that all federal agencies regulating state and local activities consider accepting state or local rules or procedures in lieu of federal ones upon certification that applicable federal requirements will be met.

At its summer meeting the Commission will consider recommendations on regulatory issues including:

- ☐ assuring adequate funding of mandated costs;
- ☐ administering crosscutting grant requirements;

- ☐ preventing excessive intrusion through federal assistance program requirements under the Spending Power;
- ☐ preventing excessive and ineffective regulation through legislative action;
- ☐ providing a systematic review of existing regulations; and,
- ☐ recognizing special regulatory problems of smaller communities.

On another important and timely intergovernmental issue, the capacity of states and localities to raise revenues, the Commission deemed as inadequate the most commonly used measure of state fiscal capacity, per capita income. The Commission recommended that the federal government utilize a broader measure of fiscal capacity, one that takes into account all sources available for state taxation including coal, gas and other energy-related resources. ACIR has developed a system, called the Representative Tax System (RTS), as an alternative to the per capita income measure of fiscal capacity. The RTS reflects the diversity of revenue sources states currently use and measures the ability of states to tax instead of measuring the economic well being of their citizens.

Frank Tippett, ACIR's First Statistician, Retires

The retirement of Francis (Frank) X. Tippett, ACIR's staff member who has served continuously since the Commission's founding, provided the occasion for a gathering of ACIR "firsts." Frank Bane, the first Chairman, William G. Colman, first Executive Director, and L. Laszlo Ecker-Racz, first Assistant Director for Taxation and Finance, joined past and present ACIR staff in honoring Frank Tippett for his many contributions to the Commission.

Tippett joined ACIR as the first statistician and soon prepared a series known as **Tax Overlapping in the United States.** The original series provided the springboard for the Commission's current annual compendium on public finance, **Significant Features of Fiscal Federalism.** Tippett has computed the statistical information contained in **Significant Features** which has become an invaluable source of data extensively used by practitioners, politicians, and the press in their efforts to shed light on the often complicated subject of intergovernmental revenues and expenditures.

Frank Tippett, second from left, is honored upon his retirement by his and ACIR's first three bosses: (from left) Frank Bane, first Commission Chairman; Tippett; Laszlo Ecker-Racz, first Assistant Director for Taxation and Finance; and William G. Colman, first Executive Director.

The reunion of Tippett's "first bosses" at the Commission served as a reminder of ACIR's origins and track record. Frank Bane's highly regarded reputation as the first Director of the Social Security System, Secretary to the National Governors' Conference, Executive Director of the Council of State Governments, as well as his service on numerous prestigious Presidential commissions, got the ACIR off to a good start. He is perhaps best remembered for his perseverance in getting Commission members to focus their attention on strengthening the states' role in the federal system. William Colman ably assisted Chairman Bane in his direction of many staff studies, including the Commission's work on fiscal balance which has had a lasting impact on ACIR's policy for federal system reform. Laszlo Ecker-Racz, who was responsible for bringing Frank Tippett to the Commission, provided the direction for the Taxation and Finance Section's early and ambitious work on making intergovernment finance more equitable and effective.

ACIR Testifies on Federalism, Comments on Other Key Issues

In testimony before the Senate Committee on Governmental Affairs on March 16, top ACIR staff described the Commission's diagnosis of the problems ailing the current intergovernmental network and outlined its recommendations for a cure.

Carl Stenberg, acting executive director, John Shannon, assistant director for taxation and finance, and David Walker, assistant director for governmental structures and functions, described the Commission's finding that over the past 20 years, the federal role has grown bigger—in terms of federal aid dollars—broader—to the point where it affects even the smallest county and local government—and deeper—through influences of federal regulations and mandates on recipients.

Other ACIR Responses to Congressional Hearings

ACIR recently submitted written testimony for Congressional hearings on several "nuts and bolts" areas including relocation assistance, OMB Circular A-95, legislation to improve the auditing of federal grants to state and local governments, and continuing

reports on federal outlays needed to track the state-by-state effects of changes in federal spending.

Relocation. In written testimony submitted to hearings held by the Senate Intergovernmental Relations Subcommittee April 22, ACIR noted that there is a need for legislation to amend the **Uniform Relocation Assistance and Real Acquisition Policies Act of 1970** and pointed out positive aspects of the Administration's bill, S. 2363. For example, the measure updates the maximum benefit levels to meet present needs and provides further adjustments to be made administratively. It would also establish a lead federal agency authorized to establish and oversee the implementation of uniform regulations under the act and make several technical amendments to enhance state and local governments' flexibility. On the other hand, S. 2363 would narrow the coverage of the Act by exempting block grants and other programs in which the federal government does not make "specific site or project decisions." Given the increasing tendency to merge categorical grants into broad grants and to increase the amount of discretion exercised by state and local governments in administering federal aid programs, as much as 90% of the activities presently covered could ultimately be without protection under these amendments, contrary to the uniform treatment the Commission has supported since 1965.

OMB Circular A-95. The Commission also raised some issues about the proposal to replace OMB Circular A-95 with a set of policies allowing each state and local government to design its own intergovernmental review and coordination system to review federal activities. OMB would be responsible for seeing that state and local concerns are recognized by federal departments and agencies in implementing the policy.

In written testimony for hearings before the Senate Subcommittee on Intergovernmental Relations, ACIR noted that while the current Circular is not free of faults, the process it sets up is a sound one, responsive to the legislation that underpins it (the **Intergovernmental Cooperation Act of 1968**). The policies proposed to substitute for OMB Circular A-95 are very general and do not refer to the legislative basis. Also left unanswered are a number of key intergovernmental questions such as how federal agencies will work with local and state governments affected by planned federal actions; how federal agencies will provide for consultations with states and localities if a state decides not to create an A-95 process of its own; and, how federal agencies will deal with unique issues in interstate metropolitan areas.

Auditing Standards. In written testimony on H.R. 4835 and H.R. 4133, legislation to provide for uniform financial management and audit standards, the Commission noted that the bills are "major steps" in the direction recommended by the ACIR in its 1981 study of uniform administrative requirements for grants-in-aid to state and local governments.

The testimony noted that the Commission is in complete support of these bills, but stated that the management of federal assistance should be improved in a comprehensive manner, such as that called for in H.R. 4465, "The Federal Assistance Improvement Act of 1981."

Federal Outlays. The Commission also commented favorably on a proposed Joint Resolution requiring OMB to continue reports on the geographic distribution of federal outlays—a task previously performed by the now defunct Community Services Administration. Writing to Senator Roth, Chairman of the Senate Committee on Governmental Affairs, the staff comments noted the critical importance of such data in tracking and projecting unprecedented changes now taking place in the federal aid system and in highlighting the role of the federal government in the nation's economy. The letter noted that this data (latest year FY 1980) is used by ACIR and others in estimating the state-by-state effects of federal aid program and swaps and turnbacks.

ACIR Says No to Expanding Its Membership

Following the introduction of measures on Capitol Hill to expand ACIR's membership to include school board members and representatives of towns and townships, the Commission at its January 8th meeting, considered and rejected the idea of enlarging the Commission.

It did, however, recommend that towns and townships be represented on the Commission and that ACIR's enabling legislation be amended to include membership of these units under the existing local government categories.

The Commission in a unanimous vote turned thumbs down on the proposal to add elected school board members.

In response to hearings held by the House Subcommittee on Intergovernmental Relations and Human Resources April 21 on two pending bills to expand the membership of ACIR (H.R. 2016 and H.R. 5192), the Commission in written testimony noted its position against expanding the numbers on the Commission but in favor of providing some representation for towns and townships.

ACIR Gears Up for Juvenile Justice Roundtables

ACIR is planning to hold two roundtables on juvenile justice before next October. The sessions will focus on the effects on states and localities of the currently fragmented structure of federal juvenile justice programs.

Perspective Editor Joins NGA

This issue of **Intergovernmental Perspective** will be the last edited by Carol S. Weissert, the Commission's Information Officer, who has left ACIR to become Director of Public Affairs for the National Governors' Association. Ms.Weissert joined ACIR in 1975 when she initiated publication of **Intergovernmental Perspective.**

A Legal Opinion

During the five months since the Supreme Court's controversial decision in **Community Communications Co. v. Boulder,**[1] speculation about its effects on municipal governance has run the gamut from sheer panic to relative sanguinity. To say the least, the January 13 decision sent shock waves throughout the nation's localities, for the Court held in **Boulder** that:

> Ours is a "*dual* system of government," which has no place for sovereign cities. [Boulder's] ordinance cannot be exempt from [antitrust] scrutiny unless it constitutes either the action of the state itself in its sovereign capacity or municipal action in furtherance or implementation of clearly articulated and affirmatively expressed state policy.[2]

The decision initially has two significant effects. First, it appears to have reduced municipal "home rule" authority and, consequently, altered state-local relations. Second, it opens cities, already reeling under the weight of expensive lawsuits, to even more litigation. It is, if nothing else, a potential pandora's box of a case.

At issue in the **Boulder** case was a revocable, nonexclusive, cable television service license assigned to Community Communications Company, Inc., in 1966. In 1979, when Community Communications sought to expand its service area in Boulder, another cable provider, Boulder Communication Company (BCC), asked the city's permission to enter the market as a competitor. The city, upon receiving the expansion request of Community Communications, enacted an "emergency" ordinance setting a three-month moratorium. The purpose of the moratorium was to prevent Community Communications from expanding further—and thereby discouraging potential competitors—while the city council drafted a model cable television ordinance and invited new cable companies to enter Boulder.

Community Communications sued the city in federal court, claiming that the imposition of the moratorium violated Section 1 of the *Sherman Antitrust Act.* The act provides, in pertinent part, that "every contract, combination . . . or conspiracy, in restraint of trade or commerce among the several states . . . is declared to be illegal."[3] The company's suit alleged a conspiracy between BCC and the City of Boulder to restrict competition. The suit requested treble damages as provided by applicable antitrust statutes.

In its defense, Boulder maintained that it passed the emergency ordinance pursuant to home rule powers granted by the Colorado State Constitution and that, in regulating cable television, it therefore was acting as the state in local matters. Thus, Boulder argued that it was immune from antitrust suits under the "state action" doctrine of **Parker v. Brown:**[4]

> [W]e find nothing in the language of the *Sherman Act* or its history which suggests that its purpose was to restrain a state or its officers or *agents* from activities directed by its legislature. In a dual system of government in which, under the Constitution the states are sovereign save only as Congress *may constitutionally subtract* from their authority, an unexpressed purpose to nullify a state's control over its officers *and agents* is not lightly to be attributed to Congress.[5]

Boulder further contended that even allowing for certain ambiguities in **Parker,** its home rule "guarantee of local autonomy"[6] was sufficient to meet the "clearly articulated and affirmatively expressed" state policy test of **New Motor Vehicle Board v. Orrin W. Fox C.**[7]

The Supreme Court rejected Boulder's arguments. Instead, Justice William Brennan's majority opinion noted that:

> [P]lainly the requirement of "*clear articulation and affirmative expression*" is not satisfied when the state's position is one of mere *neutrality* respecting the municipal actions challenged as anticompetitive. A state that allows its municipalities to do as they please can hardly be said to have "contemplated" the specific anticompetitive actions for which municipal liability is sought. Nor can these actions be truly described as "comprehended within powers granted," since the term, "granted," necessarily implies an affirmative addressing of the subject by the state.[8]

Thereafter, the Court remanded the case back to the lower courts to determine whether Boulder had in fact violated antitrust law.

Although the Supreme Court had earlier held in the **City of Lafayette v. Louisiana Power and Light Co.**[9] that a municipally operated power company, which allegedly engaged in predatory conduct aimed at its nonpublic competitors, could be sued for antitrust violations, it was assumed by many that this case was

[1] 50 LW 4144 (January 13, 1982).
[2] 50 LW 4144.
[3] 15 U.S.C. Section 1.
[4] 317 U.S. 341 (1943).
[5] Id at 350, 351.
[6] 50 LW 4144 at 4147.
[7] 439 U.S. 96 (1978).
[8] 50 LW 4144 at 4147.
[9] 435 U.S. 389 (1979).

limited by the narrow fact that the City of Lafayette was operating a business which was in direct competition with public utility companies. In **Boulder,** however, the Supreme Court extended the decision in **City of Lafayette** to an action taken by a city acting in its sovereign capacity in furtherance of its traditional government powers to protect by regulatory action public health, safety, and welfare.

What effect the **Boulder** decision will have upon municipal governance and state-local relations can only be speculated. Despite legal uncertainty, the decision's dissenting judge, Justice Rehnquist, believes it will be devastating:

> The Court's decision in this case . . .will . . . impede, if not paralyze, local governments' efforts to enact ordinances and regulations aimed at protecting public health, safety, and welfare, for fear of subjecting the local government to liability under the *Sherman Act* . . .[10]

Indeed, the ruling does not merely influence municipal regulation of cable television. Cities, after all, routinely regulate zoning, land use, housing, various professions, health care, sport and recreation facilities, the collection of trash—the list could go on for pages. Certainly, if localities were unable to perform such functions it would mean the end of viable municipal government. The problems engendered by **Boulder** are many and complex, but the "destruction-of-local-government" scenario seems highly unlikely. However, a range of less heinous effects is probable. These effects, and the potential for mitigating them, were the subject of a recent meeting of the National League of Cities (NLC).

A panel of attorneys at the NLC session first concluded that while cities probably will be flooded with lawsuits as a result of the decision, they have, at the same time, an excellent chance of winning in many cases. Moreover, cities have been given some assurance that the U.S. Justice Department does not intend to actively pursue municipal antitrust cases.

Just as important as the question of antitrust *qua* antitrust is the new twist **Boulder** has given state-local relations. The case exposes some strain in those relations since 23 state attorneys general filed briefs in support of Community Communications. Although the friction may be clear, practical reality of the situation remains somewhat opaque. Apparently, broad blankets of granted authority such as home rule are insufficient to protect municipalities from antitrust liability. In lieu of some federal exemption, states may therefore have to give statutory blessing to every single local decision in order to insure immunity. The latter scenario, according to former U.S. Attorney General Benjamin Civiletti, speaking at the NLC conference, may mean that cities will have to accept "difficult trade-offs" in exchange for state legislation.

The explanation for the Court's ruling in **Boulder** presumably lies in its historic concern for protection of the statutory policy favoring competition embodied in the antitrust laws. The state action doctrine of **Parker v. Brown** has been narrowly construed and the Supreme Court was certainly aware that there are several thousand local jurisdictions with home rule authority, all of whom could have been immune from the antitrust laws if they passed a patchwork of ordinances restricting competitions. Unfortunately the decision in **Boulder** appears to seriously undermine the more fundamental principle of federalism which is historical and Constitutional in nature. This principle has allowed states to determine the fundamental and essential ways in which they structure their operations. The home rule movement is in many respects an embodiment of that precept. In the view of Justice Rehnquist, the decision in **Boulder** "effectively destroys the home rule movement in the country."[11]

In order to avoid antitrust liability and the very real cost of such liability, the states will be required to pass new laws, amend constitutions, and perhaps even realign functions between state and local governments. In addition, under previous Supreme Court rulings, it is possible a state may only be able to confer its antitrust immunity under **Parker v. Brown** to a city or county if the implementation of the policy that purports to create the immunity for a city or county is "actively supervised" by the state itself.[12] The Supreme Court reserved its judgment on this point for subsequent decisions.

[10] Id at 4149.

[11] 102 S. Ct. at 851.

[12] 102 S. Ct. at 841 N. 14.

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And Briefly: Books

The following publications are recent reports of the Advisory Commission on Intergovernmental Relations, Washington, D.C. 20575.

State and Local Roles in the Federal System (A-88).

This 468-page report is a comprehensive look at state and local organization, activities, roles and trends. It examines the present overall pattern of state-local functional responsibilities, changing state roles and capacities over the past 20 years, types of local governments and their discretionary powers, and efforts by states and local governments to adapt to changing needs. A final chapter summarizes the major findings and presents recommendations.

This first part of a two-volume report is the result of a study conducted by the Commission in response to the Congressional mandate contained in the 1976 renewal of General Revenue Sharing to study and evaluate "state and local governmental organization from both legal and operational viewpoints." The other volume, released in the fall of 1981, is entitled, **The Federal Influence on State and Local Roles in the Federal System** (A-89).

A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1981 (M-133).

This report is an update of ACIR's two previous catalogs of federal grant-in-aid programs published in 1975 and 1978. Information given for the categorical aid programs includes the **U.S. Code** citation, grant type, formula factors, maximum federal share, purpose of the grant, and administering agency. Tables indicate where changes have occurred since 1978 and general characteristics including type of grant and agency.

As of January 1, 1981, there were 534 categorical grants, according to to this count, an increase of 9% over the 492 noted in the 1978 catalog. It appears, however, the 1981 figure may well be a highwater mark due to the consolidation of some 77 categorical grants into nine block grants and termination or failure to fund a number of other grants since January, 1981.

"Staff Briefing Report on New Federalism Initiatives" and "Changing the Federal Aid System An Analysis of Alternative Resource/Responsibility Turnbacks and Program Trade-Offs." $4, prepaid.

These two staff analyses provide both an overview and state-by-state analyses of issues underlying New Federalism plans, including fiscal balance, current Medicaid and public assistance variation among the states, state winners and losers, minimum standards for income maintenance programs, New Federalism and local governments, and state capabilities to respond to New Federalism.

Tax Capacity of the Fifty States: Methodology and Estimates (M-134).

This report is the third by ACIR assessing the fiscal capacity of governments using a measure called the Representative Tax System (RTS). The Representative Tax System combines 24 state-local tax bases into a composite index reflecting a state's tax capacity. Because the same set of tax rates is used for every state, estimated yields vary only because of the differences in underlying tax bases. The range of tax capacity as measured by the RTS is extreme, from Alaska which is some 115% above the national average to Mississippi at 29% below average.

There has been increased interest in the RTS and other sophisticated measures of fiscal capacity in recent years because such measures—unlike per capita income—take into account the ability of energy-rich states to tax those resources through severance taxes and leasing fees.

Tables for each state provide detailed statistics on that state's tax capacity and effort.

A statistical report presenting preliminary estimates for 1980 is also available at $2 prepaid to ACIR. The contact is Franklin Steinko, Budget and Management Officer, (202) 653-5640.

The States and Distressed Communities (H-133).

This ACIR Information Report was prepared with the assistance of the National Academy of Public Administration for the Department of Housing and Urban Development. The study reviews the progress of the states in five areas where they can help their communities in need: housing, economic development, community development, fiscal reforms, and local self-help programs. The research documents on a state-by-state basis what programs states have authorized and funded in the five identified areas. The study concludes that only a small number of the 50 states have made extensive use of the full range of powers and tools at their disposal. It does, however, note other ways states can aid their localities such as state assumption of, or financial support for, essential services in areas not covered in the report. Further, the study cautioned, some states with predominantly rural populations may have little need for targeted assistance programs to distressed communities.

Payments in Lieu of Taxes on Federal Real Property, Appendices (A-91).

This volume contains the supporting research materials that were used in preparing the ACIR study, **Payments in Lieu of Taxes on Federal Real Property.** The appendices published separately include a detailed explanation of how the current market value of the federal government's real property was estimated. The report also contains a listing of the number of federally owned buildings, and the estimated value of the land and structures owned by the federal government on a state-by-state basis.

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

Local Government Police Management, 2nd edition, International City Management Association, 1120 G Street, NW, Washington, DC 20005. $36.00.

Results of Local Spending and Revenue Limitations: A Survey, National Conference of State Legislatures, Fiscal Affairs Program, 1125 17th Street, 15th Floor, Denver, CO 80202.

Block Grants and Reductions in Categorical Aid Affecting State and Local Governments, Texas Advisory Commission on Intergovernmental Relations, P.O. Box 13206, Austin, TX 78711.

The Status of Sunset in the States: A Common Cause Report, Common Cause, 2030 M Street, NW, Washington, DC 20036. $3.00.

Urban Policy Under Capitalism, edited by Norman I. Fainstein and Susan S. Fainstein, Sage Publications, Inc., 275 South Beverly Drive, Beverly Hills, CA 90212. $9.95 paper.

Effects of Budget Cuts on Cities, U.S. House of Representatives, Committee on Banking, Finance and Urban Affairs, Subcommittee on Housing and Community Development, U.S. Government Printing Office, Washington, DC 20402

Productivity and Motivation: A Review of State and Local Government Initiatives, by John M. Greiner, et al, Urban Institute Press, 2100 M Street, NW, Washington, DC 20036. $18.00 hardcover; $9.00 paper.

The Proposed FY 1983 Federal Budget: Impact on the States, National Governors' Association, 444 North Capitol Street, Washington, DC 20001. $6.00.

Towards Adaptive Federalism: A Search for Criteria for Responsibility Sharing in a Federal System, Australian Advisory Council for Intergovernmental Relations, Australian Government Publishing Service, Canberra, Australia.

Oversight on the Advisory Commission on Intergovernmental Relations, U.S. Senate, Committee on Governmental Affairs, Subcommittee on Intergovernmental Relations, U.S. Government Printing Office, Washington, DC 20402.

Current Condition of American Federalism, U.S. House of Representatives, Committee on Government Operations, U.S. Government Printing Office, Washington, DC 20402.

Block Grants and the Intergovernmental System, U.S. Joint Economic Committee, Subcommittee on Economic Goals and Intergovernmental Policy, U.S. Government Printing Office, Washington, DC 20402.

A Basic Budget Guide for Small Cities and Counties, Institute of Government, University of Georgia, Terrell Hall, Athens, GA 30602. $6.00.

Facts and Figures on Government Finance, 1981, Tax Foundation, Inc., 1875 Connecticut Avenue, NW, Washington, DC 20009. $15.00 paper.

Federal Limits on State and Local Taxation, by Paul J. Hartman, Lawyers Co-Operative Publishing Co., P.O. Box 23909, Rochester, NY 14692. $62.50.

Expanding the Opportunity to Produce: Revitalizing the American Economy Through New Enterprise Development, Corporation for Enterprise Development, 2420 K Street, NW, Washington, DC 20037.

Understanding Intergovernmental Relations, 2nd edition, by Deil S. Wright, Brooks/Cole Publishing Company, 555 Abrego Street, Monterey, CA 93940. $15.95 paper.

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