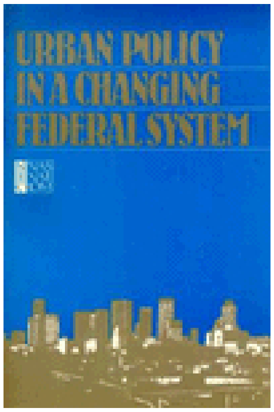

Urban Policy in a Changing Federal System: Proceedings of a Symposium

Charles R. Warren, Editor, Committee on National Urban Policy, National Research Council

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Commission on Behavioral and Social Sciences and Education
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Preface

The Symposium on Urban Policy in a Changing Federal System was convened by the Committee on National Urban Policy in the hope that some fresh and productive insights could be wrested from a subject that is conceptually elusive and pragmatically replete with partisan interests and feelings. Happily, that hope turned into solid and often exciting reality—a tribute to the mix and mood of the participants, and the easy way in which they matched their remarkable skills and diversity.

First, a word of background. The committee emerged formally in 1981 from discussions of two concerns: the wish of the National Research Council to contribute to the improvement of America's urban condition; and the wish of academic and federal urbanists that the biennial dialogue over national urban policy—mandated in the Housing Act of 1970—be enriched by dispassionate inquiry into critical and emerging issues. Appropriately, financing for the committee has come from both public and private sources: the U.S. Department of Housing and Urban Development, which also funded the symposium; the U.S. Department of Commerce; the Ford Foundation; and the German Marshall Fund of the United States.

The moving spirit in the establishment of the committee, and its first chair, was the late Harvey Perloff. This is the appropriate place to honor Harvey and his leadership. It was he who insisted that the committee break out of the older ways of looking at cities and focus its work on the changing American economy and the effects of those changes on the social, economic, physical, and governmental structures of the nation and its urban areas. That focus has enabled the committee to address coherently issues that are generic and critical to cities and the nation alike and to draw together the micro and macro perspectives that have so consistently slipped past each other.

The essence of the committee's deliberations and findings appears in its 1983 report, *Rethinking Urban Policy*. Credit goes to Royce Hanson, then study director, for capturing and creatively expanding on the most salient contributions of committee members and the sources they consulted.

Having completed that report, the committee still had high on its agenda to address the question of governance and decision making: How, in the framework of the federal system, could this nation and its cities most effectively respond to the changes in the economy that are so fundamentally altering their condition? The Reagan administration, in its formula for a New Federalism, has initiated one forceful remedy: decentralization to state and local governments and devolution to the private sector. Without prejudging the assessment, it was mutually agreed by the committee and the Department of Housing and Urban Development, our sponsor, that it would be a constructive step if a symposium was held to consider recent experience and, more generally, the role of federal, state, and local governments in shaping an effective urban policy.

Sixty people representing a broad range of experience and perspectives assembled in Woods Hole, Massachusetts, June 22–23, 1984, to share their knowledge and insights. They included academics currently involved in urban research, practitioners from the public and nonprofit sectors, and private sector representatives—who are all coping with the changing environment. During the conference some sharp differences found expression—as must inevitably be the case when different eyes and minds try to portray and evaluate massive though often amorphous transformations in the environment around them. Lively discussion centered on such topics as state and local fiscal and programmatic capacity, the nature of the new federal role, which seeks to reverse the twentieth century pattern of taking on new responsibilities, and the problem of equity raised by federal policy changes. The most dramatic moments of the meeting, in fact, came when the issue of equity was raised as a critique of the administration's mode of shedding many of the domestic responsibilities shouldered by the federal government in preceding decades.

There were also coalescing moments at the conference that derived from the breadth and dispassion of which this group was exquisitely capable. When viewed in that larger perspective, the American federal system is ingeniously contrived: an undulating process of moving pragmatically with the times, a digestive mechanism that absorbs partisan ideologies and reduces them to assimilable practicalities. And fortunately, one that is malleable.

Change it must, in a balancing act that will test every ounce of ingenuity and fairness this nation possesses. On one side, challenged by global involvements and domestic travail to exert strong and unified national leadership. On the other, forced by strained resources, the befuddling complexity of modern issues, and the stubborn sophistication of an informed citizenry, to share and disperse responsibility.

Not an easy predicament. But I came away from this conference a lot better equipped to understand and cope with it. And for that I am deeply grateful, as is the committee, to those who participated.

A word of thanks is needed to the people who planned and organized the symposium and produced this volume of proceedings. In particular to Royce Hanson, who set in motion the plans for the symposium; to Charles Warren, who skillfully managed the symposium and initially drafted the summary; to Brett Hammond, who, as associate executive director of the Commission on Behavioral and Social Sciences and Education, took over programmatic responsibilities for the committee and contributed substantially to the writing of the summary; to Christine L. McShane, editor of the Commission, and Jean Shirhall, who edited the volume and prepared it for publication; to Rose S. Kaufman, of the Commission staff, who provided valuable administrative and secretarial support; and to Shelley Westebbe, who saw to the numberless details of planning and holding a large meeting with cheerfulness and aplomb.

PAUL YLVISAKER, CHAIR

COMMITTEE ON NATIONAL URBAN POLICY

Contents

Summary

The structural or institutional framework of our federal system of government demands little explicit attention from policymakers in the abstract; its importance, however, increases in the context of how it deals with the substantive problems of society. It is in this context, the relationship between societal problems and institutional capacity, that the Committee on National Urban Policy initiated its look at American federalism.

In its earlier report, Rethinking Urban Policy, the committee analyzed the major structural changes that have been transforming the economy, in essence a shift from an economy based on manufacturing to one based on information and services. This shift emphasizes human capital over physical capital as well as the need for a well-educated, highly skilled work force. This economic transformation is changing the nature of work itself and thus, eventually, the economic role of cities. The committee concluded that the impact of economic change is the major force to which urban policy must respond. And, within that context, a federal system sufficient to meet the challenges and opportunities of the new economy is essential.

Paul Ylvisaker stated the major purpose of the symposium in his opening remarks: "to examine the framework within which this nation and its cities are expected to adjust to vastly different economic challenges and political demands." He noted that the current framework of decision making, called the New Federalism, is based on the devolution of responsibilities and decision making authority for many domestic policies from the national to the state and local levels of government. He raised the major questions: Does this current trend toward decentralization provide the most effective response to the challenges we face? Will devolution mitigate the effects of national problems? Will it encourage innovation and creativity? What are the consequences of decentralization to state and local government?

These questions were expanded into five substantive issues:

1. Urban Economic Development

- What adjustments, if any, will have to be made in the federal system to facilitate the development and execution of urban economic development strategies in the context of the transition to an economy more heavily based on knowledge and service industries?
- What changes are required in the institutions of the federal system to deal effectively with urban employment problems?
- What role can states play in assisting urban economies and in formulating national economic policy?

2. Education

- What will each level of government have to do to enable the urban educational system to prepare young people effectively for the labor force of the future? What major changes in the fiscal and functional responsibilities of federal, state, and local educational agencies are required?
- Are the states institutionally capable of bringing about reforms in the educational system to teach what will be needed in the future and to meet the basic skill requirements of urban work forces?

3. The Courts

- How have the courts defined federalism over the past several decades?
- Have changes in constitutional law had an impact on urban policy?

4. Access and Redistributive Policies

- What has been the effect of changes in federal aid and domestic program funding on urban minorities and interests?
- What seems to be happening with regard to how minorities and other groups perceive the fairness of the urban political and economic system?

5. The Concept of Partnership

- Are the states responding to the needs of urban residents and filling the voids created by reductions in federal assistance and involvement?

- How has the New Federalism affected state and local relations?
- What roles can the private and independent (private nonprofit) sectors play in the urban service system?
- Are public-private partnerships a viable response in a more decentralized federal system?
- What important ideas should be investigated with regard to the production and provision of urban services?

No attempt was made to reach definitive conclusions on these issues: Rather, the intent was to illuminate and form an agenda for research and action on what seemed to be the more critical points of federal-state-local relations. Discussion of federalism took place within the context of substantive public policies, because the structure and process of intergovernmental relations affect the achievement of social goals. This volume represents the responses of the symposium participants to these issues. In addition to this summary of the symposium proceedings, the volume includes 10 papers that focus on the essential issues.

WHAT IS FEDERALISM?

If the participants agreed on one thing, it was that there is no coherent, consistent meaning of federalism that enjoys a broad consensus. This lack of clear definition may have major implications for urban areas and how they fare under a federal system. In his paper on "The Supreme Court and the Federal System," Royce Hanson explains that: "In the absence of any hardened theory in the constitution of federalism, presidents, congresses, and courts can choose their own favorite recipes from an eclectic menu of constitutional and political concepts."

A wide range of choices is available, by some counts more than 250 separable definitions; among the more memorable are: (1) "mythic federalism"—a romantic notion whereby the states can limit the power of the federal government; (2) "dual sovereignty"—whereby clear authority and the Tenth Amendment protect the states from federal incursion; (3) "cooperative federalism"—which allows Congress to play an "anything goes" theme under the guise of providing incentives to state and local government; (4) "active nationalism"—which demands judicial restraint and disregards any barriers to the pursuit of national objectives; (5) "benign federalism"—which maintains the importance of states in the system and the need to give them latitude to procedurally reduce the overloading of the national government; and (6) "functional federalism"—which relies on a logical sorting out of responsibilities to clarify and improve federal and state roles.

The symposium participants added several other definitions: "collaborative federalism"—which views the private sector as an active partner in policy execution and service delivery; and "De Facto" New Federalism—which is a redefinition of federal-state relationships and a sorting out of roles and functions because of fiscal necessity.

Finally, the current concept of the New Federalism as conceived by the Reagan administration was articulated by representatives of the administration:

- To promote economic recovery;
- To strengthen the national government to perform its essential functions, e.g., national security and basic social insurance programs;
- To devolve domestic programs to state and local governments to increase responsiveness to diverse conditions;
- To strengthen state and local governments; and
- To stimulate private and public sector cooperation.

This conception also includes: (1) recognition of the federal responsibility for truly needy people and enforcement of civil rights; (2) recognition of disparities among people and regions and the need for a continuation of certain urban programs, e.g., Community Development Block Grants and urban development action grants; (3) the need for block grants to provide states and local governments with flexibility to set priorities within broad constraints; and (4) commitment to economic growth to alleviate social and economic distress.

THE NATIONAL IDEA VERSUS DEVOLUTION

There is an inherent conflict between the concept of nationhood and the theory of federalism. It pits central authority against state and local autonomy, unifor mity against diversity, and national initiative against local action. These are not only conflicts of dichotomous theories, but also pragmatic considerations that collide when government must act.

The tenets of federalism provoke considerable debate. A major point of conflict revolves around the definition of national interest. At the symposium, one critique was put forth by Hubert Locke: "Federalism has assumed, historically, some attempt to achieve and maintain a unitary national experience. The New Federalism carries with it the implicit notion that with respect to the vast field of domestic policy, we can afford 50 separate political systems while the federal government concerns itself chiefly with items of national security." The struggle between centralization and decentralization was evident throughout the symposium.

The notion of decentralization embodied in the concept of the New Federalism was accepted, yet tempered by concern that a federal government retreat from an urban agenda could create a void that may not be filled by the states. Fiscal pragmatism and recognition that the size of the federal deficit would preclude large domestic policy initiatives, however, led many to concede that a reduced federal role was inevitable, at least for the short-term.

The overriding concern of many is the need to articulate more clearly the division of responsibilities between the national government and state and local governments, particularly in domestic matters. This was best expressed by Robert Graham, governor of Florida and a major speaker at the symposium: "While I am genuinely pleased with the capacity and willingness of states to accept their new responsibilities in the pragmatic federalism in which we are operating, there are issues that require a national response. There are issues that cannot be fulfilled in an appropriate manner on a state-by-state basis."

Participants enumerated a number of issues requiring national attention, including: immigration, foreign trade policy, environmental protection (especially from acid rain), interstate banking, and dislocated workers. George Latimer, mayor of St. Paul, Minnesota, and also a major speaker, agreed: "We have to reaffirm and more sharply identify those issues that require national involvement."

Yet some argued that systemic change was required for reasons other than ideological or fiscal justification for devolution. Latimer pointed out that the system needed some innovation and that public officials have to learn to deliver services more creatively and more humanely, to allow more participation, and to encourage more community-based decision making.

An understanding did emerge, in the words of Ted Kolderie, that "a new idea-system" was needed. In his paper in this volume, "Changing Conceptions of Private and Governmental Role," Kolderie argues that there is reduced confidence on the part of the public that issues are best handled as national problems or as political decisions. He raises the question of whether government and its professional bureaucracies should be relied on for many public services. Kolderie maintains that, as a nation, we are in a transition from one set of theories to another, but that "other types of action are simply emerging without a theory to explain them: local action rather than national action, private rather than governmental, nonprofessional rather than professional, pro-competitive rather than regulatory."

The symposium raised new possibilities but produced no general strategy for dealing with urban problems. A reduced national role was accepted, but there was no agreement on the further reduction of the domestic responsibilities of the federal government. The increased competence and capacity of state governments were recognized, but there was no consensus on how the states would use their new strength or on how well they would perform in their pivotal position between the federal and local governments.

The absence of a consensus was noted, not on scholarly or philosophical grounds, but in terms of the effects of a lack of definition in the question of social responsibility. Helen Ladd summarized the discussion of social responsibility:

> Although we have the capacity and the mechanisms to effect redistribution, we are now choosing not to do so. Some argue that there are private and public groups with innovative ideas about specific programs and the proper locus of responsibility for them. Others point out that we have not supported those programs and groups the way we should have and that the effect has been to leave the poor like boats chained to the bottom of the harbor during a rising economic tide with little or no means to free themselves.

The participants also examined political devolution in light of on-going structural changes in the U.S. economy. As someone noted about increasing internationalization at all levels of the U.S. economy, at the very time we are decentralizing politically, we are moving into a global economy with increased international competition. Some observers have suggested that the nation is in the midst of an economic upheaval akin to the industrial revolution in scope, with no equal in modern economic history in the speed with which the economic transformation is taking place. The underlying questions are: What demands will a changing economy place on political and social institutions? How well equipped is an emerging federal system to deal with those demands?

The relationship between new federalism and the economy is most evident in urban economic development and education. The committee's earlier analysis of the urban policy problems presented by an advanced economy was supplemented by the papers in this volume on urban education and job training. The central issue is the capacity of the federal system to produce educated, skilled, and technologically competent workers at the entry level and to retrain the existing labor force for the demands of a new economy.

The problems of urban school districts and the capacity of the federal system to respond to the pressures for reform are analyzed in the paper by Robert Andringa, "DeFacto New Federalism and Urban Education." Although the problems of urban schools are formidable, there are reasons for optimism. States have undertaken new initiatives to improve education, funds have been targeted to special populations, and much is known about effective educational policies and practices.

Job training and the roles of federal and state governments are much more problematic. Under administration initiative, the Comprehensive Employment and Training Act, a federal-local program of job training, was replaced with the Job Training Partnership Act, a federal-state-local program that places greater emphasis on the participation of the private sector. Although this new program has only recently reached the implementation stage and it is too early to evaluate it, Gail Garfield Schwartz and Kenneth Poole are pessimistic in their paper, "The Significance of the Job Training Partnership Act for Federal-State-Local Relationships," about the ability of state governments to meet their responsibilities. Underfunding, unrealistic goals and expectations, bureaucratic complexity, and the conflict between job training and job placement are potential issues in the success of the Job Training Partnership Act.

Although the participants reached no consensus, they did point out that major institutional changes are occurring in the federal system and that private and nonprofit sectors are far more deeply involved in both management of the system and in developing linkages among previously separate functions, such as employment and education.

FISCAL CAPACITY, INSTITUTIONAL RESPONSIBILITY, AND THE CONSEQUENCES OF FEDERAL DEVOLUTION

The institutional effects of economic change are one of the major issues currently affecting the federal system. Other important issues considered by the participants are: (1) fiscal capacity, (2) the size and scope of governmental authority, (3) equity among groups and areas, and (4) the consequences of reform.

The paper by John Shannon, "Fiscal Federalism After the California Taxpayers' Revolt," provides the facts and a forecast of fiscal federalism. The year of the California tax revolt, 1978, marked the beginning of nationwide fiscal restraint. In that year, taxpayers' revolts reduced federal aid, and recession led to the start of a great slowdown in state and local outlays. Between 1978 and 1983, employment and expenditures of state and local governments declined 1 percent in real terms. During the same period, federal expenditures increased dramatically due to deficits, defense spending, and social insurance programs; federal aid to states and localities, as a percentage of their budgets, decreased from 26 percent to 20 percent. Spending and deficits have placed a squeeze on domestic expenditures that is not likely to be released soon. Shannon offered a startling illustrative statistic: the federal budget deficit for fiscal 1983 was $24 billion greater than the tax collections of all 50 states combined. Many agreed that we are outstripping federal resources nationwide and that the most important thing about federalism is that the federal government has no money.

Another factor is the issue of the proper size and scope of government. Questions about the allocation of roles and responsibilities among federal, state, and local institutions are overlaid by a more fundamental concern: How much government is enough? The need for new perspec tives on this question is suggested, not only by taxpayers' revolts, which focused on fiscal issues, but also, in the view of some observers, by a growing belief that government should err, if at all, on the side of doing less rather than more. Others argue that it is not simply a question of how much is enough, but rather what role the national government should play in the federal system.

The equity issue combines the fiscal and political factors: How should a federal system allocate its resources? To what extent should it follow redistributive policies that shift resources from those who have to those who need, in terms of both people and places? The issue of equity or fairness is, for many people, a basic test of federal system effectiveness. Devolution to state and local governments was seen by many as producing outcomes for the urban poor and minorities that were less beneficial than national policies and programs have been in the past.

One theme of the symposium was the impact of recent policies of the Reagan administration and their longer-term consequences for urban areas and their residents. Fred Doolittle reported on the results of a study of the impact of federal aid reductions and the shift to block grants. The decline in federal aid, which began during the Carter administration, was accelerated in 1981 when it was reduced an additional 12 percent in real terms. Congress, however, has restored some of the program cutbacks—aid was increased by 3 percent in 1982, 1983, and 1984. The effect of the budget cuts was ameliorated by three factors: carry-over funding, the shifting of funds among programs, and some state and local replacement. Capital spending by state and local governments actually increased, mainly as a result of the increase in the gas tax for highway maintenance and construction. The major conclusion was that shifts in federal aid programs and funding levels are moderated as they work their way through the federal system.

The major consequences of these federal aid changes have been an increase in state control of resource allocation and more attention to state government by nonprofit organizations and local officials. For example, it was pointed out that community action agencies, which had not previously established ties with the states, are now scrambling to their state capitols to secure funding from state-controlled Community Services Block Grants. With respect to longer-term prospects, Doolittle reported two quite divergent readings. One is that greater cutbacks are in the offing, since federal aid is highly vulnerable given national budget priorities and pressures. Another is that if the economy continues to improve, state fiscal conditions may allow more replacement of federal dollars.

Significantly, the states have not responded to the cutbacks in a uniform manner. The paper by John DeGrove and Barbara Brumback in this volume, "State-Local Partnership: Problems and Possibilities," points out the varied policies of the states and the link among political culture, fiscal health, and tradition in the states' attitudes toward federal aid retrenchment. Doolittle reported that, not surprisingly, "liberal, wealthier states are doing more to counter aid changes than are poorer, conservative states." He also discerned a pattern of state reallocation of funds away from larger cities and a tendency to spread resources among local jurisdictions. The consequence of this diversity in state decision making is to increase the differences within individual states and among the states in how poor people are treated.

The concern for equity and the effect of these domestic policy changes on the poor and minorities was a recurrent theme of discussion and comment. Dale Rogers Marshall and John J. Kirlin reviewed the politics of redistribution in their paper, "The Distributive Politics of the New Federal System." Their historical perspective provides a cautionary note to the critics of recent policies. In the 20 years prior to the Reagan administration, "redistribution gained prominence on the political agenda. But the amount of redistribution that actually occurred was more modest than commonly recognized." In effect, rhetoric and reality were again mismatched. Past federal policies have helped reduce poverty and disparities among regions, but not to the extent most perceive. Reagan's policies have "somewhat decreased redistribution to lower income groups," but not the extent his opponents have claimed. Marshall and Kirlin conclude: "Opponents said that Reagan would dismantle all gains of the welfare state. The extreme predictions of both sides—overstated for understandable political reasons—have been proven wrong." In this case, as Marshall and Kirlin argue, "the theory base of social policy has shifted more than the distributive impacts."

Astrid Merget addressed the issue of equity and equal opportunity in relation to the courts and service delivery. Her remarks provide a more severe view of recent events. She saw the "public value of equity" as one that is now misunderstood, ill-defined, and threatened. The public mood has shifted away from policies that ostensibly redress wrongs. The courts are less inclined to check actions that diminish equity and reduce equality. Diminished resources have made it more difficult or less tolerable to redistribute downward to lower income groups. Merget concluded that "the conducive conditions that allowed us to pursue and champion the cause of equity seem to have disappeared."

In response to concerns about fiscal capacity and equity, Robert Carlson, from his perspective as a former Reagan White House urban policy aide, stated that cuts in the federal income tax enabled states and local governments to raise their own taxes and to finance their needs from their own sources. Harold Wolman countered that the tax systems of subnational governments are inherently more regressive than those of the federal government. State and local taxes fall more heavily on lower income groups; fiscal devolution may impose a greater burden on those with the least capacity to pay.

Wolman's paper, "National-Urban Relations in Foreign Federal Systems," shows that the U.S. system of federal-state-local relations is quite different from its counterparts in other countries. His survey of several countries, both federal and unitary in structure, reveals that "with the exception of the United Kingdom, direct national-local relations of the sort that are prevalent in the United States are rare; the federal government interacts with urban governments primarily through state governments." Yet those federal-state relationships are more authoritative than found in the United States. State-local responsibilities are more explicitly spelled out, and tax systems are mandated to provide for equalization among communities. Wolman found that the strongest contrast between other countries and the United States "is the degree to which [they] incorporate equalization factors in their distribution formulas. Indeed, equalization is an explicitly stated objective of the grant system in many of these countries."

RESPONSES TO NEW FEDERALISM

Questions abut the New Federalism considered by the participants include: What is the capacity and commitment of state governments? Are cities finding new ways to cope and manage? Are public-private partnerships an effective response? What have been the effects on nonprofit organizations?

In their paper DeGrove and Brumback assert: "The states have emerged as chief partners in the federal system from whom local governments can expect a favorable response to local needs." Governor Graham traced the increased capacity of his state to the reapportionment wave of the 1960s, which has produced new institutions, organizational maturity, and competent internal staff. According to Graham, "states are in an advantageous position in terms of their capability to accept the new responsibilities imposed upon them by federal fiscal constraints."

Of the three dimensions of state capacity—managerial, fiscal, and political—there was general acceptance of improved state managerial or organizational competence. Fiscally, many states are in much better condition than they were a few years ago. However, according to John Shannon, "tax and expenditure limitations, the memory of the tax revolt, and public opposition to government expansion," will continue to restrain state spending.

It was the political capacity or commitment of the states that was most disputed. The dispute was sharply drawn in the two papers on state-local relations. While the authors relied on the same data source to assess relationships in eight states and cities, they reached very different conclusions about the state response. DeGrove and Brumback take a relatively optimistic view of the states, while Wood and Klimkowsky see little prospect for improvement in the state urban record. These divergent findings are explained partly by a difference of focus—the first paper looked at more generalized state-local relations, while the second concentrated on the relationship between large cities and states.

Robert Wood and Beverly Klimkowsky's analysis of eight cities, "Cities in the New Federalism," found: "The cities turned inward to their own resources and authority; launched few sustained drives for outside help from the states; entered into few agreements that compromised their power to decide and to allocate." While clearly such traditional responses to austerity as budget cutting, service reductions, and employee layoffs have been prevalent, other observers see a new entrepreneurial role on the part of cities. Chicago was cited as one example of a city's procurement dollars being used to increase minority hiring and aid small businesses. Philadelphia was cited as a city working with its suburbs to improve mass transit and tax policies in the region.

In contrast, DeGrove and Brumback looked at the experiences with federal cutbacks of eight states and discovered that state responses ranged inconsistently from additional cutbacks at the state level to replacement of lost federal funds through state and local legislative action. In addition, the fiscal responses of each state were occasionally contradictory. California, for example, increased financial aid to local governments after the passage of Proposition 13 and also transferred some fiscal responsibility for medically indigent adults to the counties. Evidence at the state level supports few generalizations about federalism. While the authors are optimistic that states will continued to evolve as strong actors in the federal system, events such as recession and subnational political change have overshadowed changing practices of federalism.

Mayor Latimer of St. Paul provided several examples of innovative programs involving the private sector and foundations in the areas of job training and employment, energy conservation through district heating, and new and rehabilitated housing. According to Latimer, "We have just begun to enter into public-private partnerships in cities, and it is absolutely essential from an economic standpoint that we continue to increase our interactions with the private sector."

There was, however, some skepticism over the contribution that public-private partnerships can make to urban problems and the needs of poor people and minorities. The point was made that joint ventures can be expensive, since the private sector demands a return on investment and there may be little profit in meeting the toughest problems or reaching those most difficult to serve. Yet it was also acknowledged that joint ventures designed to solve part of the problem —for example, finding innovative ways to reduce housing costs for low-income and middle-income families—may not drain resources needed for other, more difficult issues.

On balance, joint ventures between government and business were viewed as a significant strategy for meeting some of the needs of city residents. While such partnerships are increasing, however, the cutbacks in funding have dramatically changed the role of some nonprofit organizations. Many nonprofit service providers relied heavily on the federal government partner in financing their programs.

Blenda Wilson discussed the very difficult circumstances that nonprofit service providers now face. New strategies are required to develop nonfederal sources of revenue for community-based organizations. Nonprofit organizations must now compete vigorously with each other for funds from foundations and corporations. Many are now forced to charge fees for the services they provide and, as a result, find that their clientele has changed. Some are no longer serving the poor and disadvantaged, but rather the working class and those with insurance. Wilson concluded her presentation by asking whether the New Federalism would not diminish rather than increase the ability of communities and nonprofit organizations to cope with current responsibilities. Partners, she argued, should be people who care about the same things—and at least one of the partners has to have some money to put behind that caring.

CONCLUSION

Throughout the symposium the future evolution of the American federal system was debated. There were those who suggested that current fiscal and economic trends and growing political conservativism on the part of the American people would prolong and intensify the currently austere and difficult conditions. Others criticized such gloomy forecasts as too short-term in thought and too reactive in response.

Some found the existing federal system to be incoherent, confusing, and ill-defined, a system in which rhetoric and reality are continually mismatched, accountability and responsibility are not fixed, and no single level of government is in charge. They found this inchoate commonweal to be particularly detrimental to cities and urban areas. They regarded the inability to achieve a consensus on national urban policy as a failure of the nation, as a people, to respond to the needs and concerns of a minority of the population—poor, minority, and disadvantaged people.

Participants cited real concerns. Budget cuts have reduced public services to the needy; states have cut back their funding to the medically indigent and shifted the burden of service provision to counties and cities; nonprofit organizations providing charitable and social services have terminated programs, serving only those who can pay, or, in some cases, have disappeared from their community. State and local governments are receiving less financial assistance, in real terms, from the federal government. Communities are more dependent on their own resources, which are not equally distributed among jurisdictions, to meet residents' needs. Redistribution has been "somewhat" decreased.

More disturbing to most was the unproven, or yet undemonstrated, capacity of this system—which might be termed "muddled federalism"—to respond to dramatic and accelerating changes in the economy. Educational challenges are not being met, although significant, or at least numerous, reforms are under way. New approaches to job training have been initiated but are barely operational and have yet to show that legislative policy can be put into effective practice.

Despite the long litany of problems and unresolved issues confronting the nation and its governmental system, other people saw reasons for confidence. Mayor Latimer expressed it well when he described the flow of immigrants into the cities, as clearly "a national opportunity and not simply a local problem." Perspective seems to be all-important in public action.

Others argued that there is a basis for optimism in the response of the institutional actors. The Reagan administration has maintained many significant urban programs in urban and community development. Congress has restored funds to social programs. The states are more competent now to manage in a devolved system and have shown a willingness to raise taxes and replace funds for vitally important initiatives in transportation, education, and community development. Cities are becoming more entrepreneurial, are developing effective partnerships with the private sector, and are learning to use their own resources more creatively. There is evidence, here and there, of growing cooperation between central cities and suburbs. Community-based organizations are facing hard times, but many are responding with innovative strategies and, at the same time, involving more people in their activities.

Paul Ylvisaker provided an answer to the overriding question of the future of the federal system when he said: "The national attitude cycles on the subject of federalism. At times the nation centralizes, at times it decentralizes." He also implicitly revealed the virtue of the federal system. Despite the conflict between the centripetal pull of the national government and the centrifugal pull of state and local governments, there is an inherent capacity to adapt, to respond to problems in many different ways, and to show the potential for innovation. The federal system does appear to mitigate the effects of larger, national problems by allowing numerous political entities to experiment, to adopt varied policies, and to challenge, or if necessary to reject, single-source solutions.

Recent debates about federalism have been preoccupied with the question of sorting out, a process that would impose some order and logic on federal, state, and local roles. And yet the nation may be better off with an unsorted system. Ylvisaker expressed the virtues of unsorted federalism:

> The federal system is at its best when all three levels simultaneously are dealing with the same concerns—competitively, intentioned, cooperatively. Whenever you see one level saying that those concerns belong to that level and that level alone, I think the vitality of the system suffers.

The New Federalism may be a stage in the "transition to a new set of ideas about the nature of public issues and about the process of social action," as Ted Kolderie has speculated. Yet whatever new idea or theory emerges, it is likely to continue to include the inevitable conflict between the allegiance to a national government and the respect for state and local loyalties.

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Trends and Developments in Federalism: The Meaning for Urban Policy

Charles R. Warren

THE EVOLUTION OF FEDERALISM

Since the New Deal era of the 1930s, a steady expansion of the fiscal and programmatic responsibilities of the national government has characterized American federalism. First, national authority was exercised to remedy the social and economic impacts of the depression. Then, the federal muscle was flexed again after World War II to meet the domestic agenda neglected during the war. Attempts were made to reverse these centralizing trends during the Eisenhower administration with the appointment of the Kestenbaum Commission in 1953, which was asked to sort out federal and state responsibilities. The commission's recommendations met with little success, however, in Congress or in the various executive agencies. We had moved irreversibly into the condition of "marble cake federalism." During President Johnson's era of the Great Society and "creative federalism," there was a further increase in direct federal-local relations, the bypassing of state governments, and an emphasis by the federal government on urban programs and policies.

The Nixon presidency renewed the effort to reverse these centralizing trends through its inauguration of a "new federalism," which as David Walker (1981:104–105) explains,

> was ostensibly anti-centralization, anticategorical, and antiadministrative confusion. In positive terms, it supported: greater decentralization within the federal departments to their field units; a devolution of more power and greater discretion to recipient units; a

> streamlining of the service delivery system generally; a definite preferring of general governments and their elected officials; and some sorting out of servicing responsibilities by government levels.

Yet, despite President Nixon's philosophy, the trend toward centralization continued unabated. Federal aid to state and local governments rose from $20.3 billion in 1969 to $68.4 billion in 1977, when President Ford completed the Nixon term.

President Carter launched an ambitious process to formulate and articulate a national urban policy that would, for the first time, make explicit the responsibility of the federal government to confront certain urban problems and work toward their resolution. Carter's announcement of "A New Partnership To Conserve America's Communities" in March 1978 was hailed as a major achievement by city officials. Yet, when put under closer scrutiny, the 1978 national urban policy could be characterized as little more than a post-hoc codification and refinement of earlier presidential and congressional initiatives. In addition, while federal policy toward urban areas had been articulated, the programs that were to be implemented were cast within a framework of fiscal conservatism. The demands of the mayors and other urban constituencies for a "Marshall Plan" to save America's cities were rejected by the Carter administration as infeasible and unrealistic in light of growing public concern over inflation and demands for a reduction in federal deficit spending.

The interest in urban and social programs expressed by the Carter administration was also coupled with an antibureaucratic philosophy. Campaigns to reduce paperwork, reform the regulatory process, and streamline administrative procedures were being mounted at the same time, and those objectives infused the urban policy process. While the Carter presidency embraced the concept of national leadership on urban policy and espoused a wide range of national goals, it also advocated a slowing of federal government expansion. A pragmatic philosophy of federalism had emerged that attempted to remain consistent with Democratic Party principles while still meeting the demands of fiscal austerity and appealing to the antigovernment, antitaxation mood of the American people (Walker, 1981).

Federalism under the previous four presidents—Johnson, Nixon, Ford, and Carter—was defined more by pragmatic and political considerations than by theory or ideology. President Reagan, however, came to office with an ideological concept of federalism based on strong convictions that the domestic role of the federal government should be limited; the federal government should deal primarily with the states; and the reduction of fiscal and economic disparities between communities was not a national responsibility (USHUD, 1982).

Reagan's New Federalism, in some respects, however, has continued the principles pursued by his predecessors: greater reliance on block grants, greater discretion to states and localities, and regulatory reform. The need to curtail federal expansionism, reduce federal intrusion into state and local affairs, and work toward, if not for, a balanced federal budget has become a mainstream political objective. The devolution of program responsibility to state and local government and a reduction in federal assistance have become a continuing trend, regardless of the party in power.

ECONOMIC CONDITIONS

It is hardly debatable that our federal system has undergone a process of realignment. Yet, the extent to which the relevant balances of power and responsibility within the federal system will be altered in the future and the consequences of impending changes are less certain. Ideologies aside, we can be certain that fiscal and economic conditions have and will continue to define federal-state-local roles. Fiscal austerity and "budget-driven federalism," accompanied or not by shifts in the public's expectations of government, will have major consequences for America's cities and force changes in the shape and content of national urban policy.

National policy decisions and economic conditions substantially affect state and local government, yet additional forces are at work, including basic shifts in the economy, interregional migration of economic activity and population, technological advances, public attitudes, and court decisions. All of these factors influence the evolution of federalism, and the combination of a number of major developments can be expected to produce long-term consequences for state and local government.

The effects of the 1982 recession varied from region to region and from state to state, yet for most cities the result has been either a slowdown in growth rates or an erosion of tax base and revenues. Unemployment hit a record high of 10.8 percent in December 1982, but it has since declined to a stable 7.8 percent. However, unemployment rates in some cities reached levels above 20 percent, and for black teenagers they climbed to the 40–50 percent range (Seaberry, 1984).

These levels of unemployment produce the double-whammy effect of reduced revenues from personal income and sales taxes and increased demands for social and welfare expenditures. (The 1982 budget cuts reduced Aid to Families with Dependent Children [AFDC] and Food Stamp payments by approximately 25 percent.) State economies dependent on such industries as timber, homebuilding, automobiles, and steel were especially hard hit—for example, Oregon, Washington, Michigan, Minnesota, and Illinois. Some state-local economies have become hyper-responsive to national economic cycles. As the old adage goes, when some parts of the country get the sniffles, others come down with pneumonia.

THE PUBLIC MOOD

The prevailing mood of the voting public has been antitaxation and antigovernment. California and Massachusetts provided the starkest examples of voter-imposed propositions that rolled back property taxes and limited state tax increases. Limitations on state and local expenditures have spread. State revenues have been limited constitutionally in 9 states and statutorily in 11 states. In 38 states, some tupe of limit has been imposed on the property tax (Gold, 1983).

It is uncertain whether the tax revolt movement is abating or continuing. In November 1983, voters rejected ballot measures to roll back tax increases in Ohio and Michigan. Yet in Florida, a constitutional amendment was placed on the ballot in 1984 that would have rolled back property taxes and limited state revenues. The state supreme court, however, struck it down as unconstitutional.

Some states have increased taxes to compensate for the loss of revenues due to poor economic performance.

In most cases, these revenue "enhancements" have been for specific purposes, such as education or highways. A recent study of federalism led by Richard Nathan and Fred Doolittle of Princeton University has concluded that the states are generally ratifying the budget cuts at the federal level and not making an effort to replace the loss of federal aid (Nathan et al., 1982).

The annual public opinion poll of "changing public attitudes on governments and taxes" undertaken by the U.S. Advisory Commission on Intergovernmental Relations (hereinafter ACIR) included a new question in 1983 on what the states should do in light of the cutbacks in federal financial aid to local governments. Their results show that 18 percent of those surveyed felt that the states should not try to make up any of the federal cutbacks; 46 percent chose to "make up only some of the federal cutbacks" as their preference (U.S. Advisory Commission on Intergovernmental Relations, 1983a; hereinafter USACIR). The USACIR poll also reveals a clear public preference for the sales tax as the best method or raising additional revenues.

THE DECLINE IN FEDERAL DOMESTIC SPENDING

In 1978, federal intergovernmental assistance represented 17.3 percent of total federal outlays, but that was an all-time high, and it has declined steadily since. In 1981, it was 14.4 percent; in 1984, federal aid as a percentage of total federal outlays was estimated at 11.3—an amount lower than it was in 1970 (USACIR, 1983c). In fiscal year 1981, federal aid was $94.8 billion. Fiscal year 1982 grants-in-aid declined to $88.8 billion, but were estimated to have risen to $93.5 billion in 1983 (USACIR, 1983c). Cuts made by President Reagan in the 1981 Carter budget totaled $58.9 billion—52 percent of which came from intergovernmental aid (Shirey, 1981). Increases in defense spending, the rising growth of entitlement programs, and interest on the national debt to finance deficits in the $100–$200 billion range may foreclose the possibility of any significant comeback in federal aid levels.

THE SHIFT TO BLOCK GRANTS

In 1981, Congress folded 57 categorical, grant-in-aid programs, mostly in the health and social services area, into 9 block grants. Most of the new block grants were in traditional areas of state programmatic responsibility; 2 of the block grants, however, did increase the state role. States now have the option to manage the small-cities portion of the Community Development Block Grant (CDBG) program, and about 40 states have taken that option. Funds from the Community Services program, which previously went directly to nonprofit organizations and local public agencies, are now channeled through the states.

The block grants gave state governments greater flexibility and discretion, although not as much as the governors sought. The Reagan administration made it clear that more block grants would be proposed. Proposals were transmitted to Congress for "four large block grants—quickly termed 'megablocks'—that consolidate many categorical programs, general revenue sharing, one block grant, and eight of the nine block grants enacted in 1981" (USACIR, 1983b:4). Neither Congress nor state or local officials expressed any enthuasiasm for these proposals and action on further New Federalism initiatives was largely stalled. The block-grant trend did continue with the enactment of the Job Training and Partnership Act, which replaced the Comprehensive Employment and Training Act. It provided the states a much more significant role in the management and coordination of local manpower training programs.

CHANGING FUNCTIONAL ASSIGNMENTS

The 1982 and 1983 budget proposals provided some indication of the shifts in functional responsibilities that occurred over the next several years. Federal economic development and physical infrastructure programs were curtailed. Abolition of the Economic Development Administration was proposed, but Congress kept it alive at a reduced scale. Farmers Home Administration grants and loans for rural facilities were reduced sharply. The popular Urban Development Action Grant program was cut by one-third. And, the Environmental Protection Agency's water and sewer grants were no longer to be provided to accommodate population and economic growth.

On the other hand, a five-cents-per-gallon increase in the gasoline tax, which took effect in April 1983, has expanded federal support of highway construction and reconstruction. The Washington Post (Feaver, 1983:A3) reported that:

> Although precise figures are still being computed, federal road-building obligations will exceed $12 billion in the fiscal year that ended Sept. 30 [1983]. That is at least $4 billion more than budgeted at the federal level before the tax increase.

Overall, the losses in federal support for state and local infrastructure programs outweigh the gains, and the trend toward greater reliance on user charges and borrowing to finance those needs has accelerated.

PUBLIC INFRASTRUCTURE AND ECONOMIC GROWTH

A special report by Business Week (1981:136) examined the relationship between economic growth and the physical infrastructure of this nation. According to the report:

> So serious is the decay of the nation's infrastructure and so poor the prospects for its refurbishment that many sophisticated businessmen and economists believe that the U.S. is entering a period of severe crisis for state and local government.

The report claims that, historically, U.S. economic growth "was dependent on a balance between public and private investment" (p. 137). The report goes on to argue that the President's economic program could "abort if state and local government cannot find the wherewithal to build the public facilities needed for support" (p. 137).

The arguments set forth in the Business Week report are important to cities with declining populations and depressed economies. They raise serious questions about the extent to which services currently provided by the public sector can be "privatized" and, more importantly, about whether the predicted austerity in public finances will, in turn, retard private sector economic growth.

A recent U.S. General Accounting Office (hereinafter GAO) report has documented the profound structural changes that have occurred in the municipal bond market and the adverse impact those changes are having on infrastructure financing. The GAO (U.S. General Accounting Office, 1983:11; hereinafter USGAO) points out that: "In 1970, over 95 percent of the $18.1 billion in municipal bond issues was used to finance traditional public infrastructure. By 1982, such use dropped to only 48 percent of new issues." During the past decade, tax-exempt bonds have been used increasingly to finance multiple-and single-family housing, industrial development, student loans, and other activities. At the same time, the annual volume of municipal bonds rose "from $43.3 billion in 1979 to $77.3 billion in 1982" (USGAO, 1983:11).

Interest rates for municipal bonds also sharply increased, reaching a record high of 12.84 percent in January 1982, and while overall interest rates in general have declined, the reduced attractiveness of tax-exempt bonds to institutional investors has kept interest rates on state and local borrowing relatively high (USGAO, 1983:1). According to Business Week (1981), the rates that states and cities have had to pay for money have almost doubled since 1977.

Higher interest rates have led to delays and cancellations of bond sales and increased the amounts that must be dedicated to interest repayment. The increase in nontraditional uses of municipal bonds has reduced the amount available for capital construction. These factors, according to the GAO (USGAO, 1983:v), "have combined to contribute to lower investment in general, including reduced investment in state and local infrastructure."

PUBLIC-PRIVATE SECTOR RESPONSES

Public-private sector relationships are a separate major topic of national urban policy, but they are also an important aspect of state-local adjustments to the major developments of federalism. Two aspects of this subject need to be highlighted: first, the question of the capacity and willingness of the private sector to assume some of the burden resulting from the reductions in public expenditures; second, the dependency of the private sector on public investment in human resources and capital facilities to enable economic growth.

The Reagan administration created a task force on voluntarism to encourage public-private partnerships. A number of national organizations, such as The Conference Board and the Business Roundtable, are also actively addressing this issue, and the Committee for Economic Development (1982) has just completed a major research and policy statement on the topic. Yet, members of the business community are also concerned that public expectations for private sector responses may be excessive and could place them in a no-win situation.

Vernon Jordan (1981) has criticized the Reagan administration's reliance on a private sector response:

> But there are limits to voluntarism that the Administration refuses to acknowledge. Recent studies indicate that the voluntary sectors will lose some $27 billion in federal aid between 1981 and 1984, and it is unlikely that private donations can plug the gap. Most private giving is to religious organizations, and the social welfare institutions, currently most dependent on federal monies, represent a shrinking sector of the charitable pie.

Jordan also pointed out that while the new tax law allows corporations to donate up to 10 percent (doubled from 5 percent) of taxable income, corporate contributions have averaged only 1 percent of pretax net income over the last several years. And, the drop in the tax rate has reduced the incentive to give.

INTERGOVERNMENTAL COOPERATION OR CONFLICT?

A fundamental question for the decade ahead is: Will intergovernmental relations be characterized by greater cooperation and harmony or by increased conflict and competition?

At the national level, the coalition of state and local officials, which was formed to secure general revenue sharing, and which stayed together to maintain its funding through successive Congresses, came apart in 1980 when local officials failed to join the fight to maintain the state share of the general revenue. The Reagan block-grant proposals, especially the state CDBG program, increased the conflict among the national, state, and local associations.

During the summer of 1981, local officials (the mayors were the most outspoken) publicly condemned the states for their ineptitude and insensitivity to urban problems. While these criticisms were part of a political strategy to dissuade Congress from granting states greater authority, thus constricting the federal-local aid pipeline, they also reflected a widespread disenchantment with state policies.

The cities' lobbying groups in Washington, D.C., had largely ignored the role of state governments; their policy platforms had been silent on state actions. As the Reagan budget cuts were announced, the battle over federal aid appeared to be a zero-sum game between the states and the locals. When the cuts in federal aid became reality, however, there was a realization that state and local officials needed to join forces to avoid even more draconian reductions. Mayor Hudnut of Indianapolis, 1981 president of the National League of Cities, was invited to make a major presentation to the National Governors' Association (NGA). Governor Snelling of Vermont, chairman of NGA, attended conferences of the National League of Cities and the Conference of Mayors and urged conciliation and cooperation between state and local officials. As a consequence, the coalition of public interest groups was reestablished and joint positions were once again developed (Stanfield, 1981).

Changes in the federal aid system began to force the cities to pay more attention to their state capitols. Whether this was a shotgun marriage or a lasting alliance remains an open question. There have been some encouraging signs. A number of states brought local officials into planning the implementation of the block grants the Department of Housing and Urban Development required consultation with local governments), and a few even shared review of grant applications with local officials. In December 1981, Nation's Cities Weekly (Reed, 1981) reported:

> State governments appear to be making a serious effort to involve local governments in designing their small cities community development block grants programs, according to information from a number of cities and state municipal leagues.

The cooperation that seemed to prevail at the end of 1981 between state and local officials was partly due to the fact that most state responses to the Reagan federal ism initiatives were made by the governors rather than the state legislatures. As Rochelle Stanfield (1981: 2226) pointed out, "The objects of most of the mayors' ire are the state legislatures rather than the governors, with whom many mayors maintain cordial relationships." It is in the legislative arena where the tough allocation decisions are made and where the potential for state-local conflict is high. But beginning in early 1982, when the state legislatures convened and began to prepare their annual or biennial budgets, the conflict and competition increased.

If the states are unable, or unwilling, to make an adequate fiscal response to the federal reductions, the demands of city officials for increased local authority and autonomy will surely increase. Yet, it will be politically difficult for legislators to unleash their local governments by repealing existing tax and spending limitations or by endorsing measures that could lead to tax increases. State-imposed controls and local autonomy will be a growing source of conflict between the cities and the states.

The question of intergovernmental cooperation or conflict will also be an interlocal issue, among cities, counties, and special districts. Competition may arise between local jurisdictions in an urban area when they share essentially the same tax base. Efforts by special districts to increase tax levies may be fiercely resisted by city officials, if those increases would restrict the city's own ability to raise revenues.

On the other hand, fiscal scarcity could result in more interlocal cooperation in an effort to achieve economies in service delivery. Joint provision of services, transfer of some functions or parts of functions from the city to the county, or interlocal contracting could become increasingly attractive alternatives. Fiscal pressures could also lead to some forms of cooperative financial arrangements to capture growing regional tax bases.

URBAN POLICY OPTIONS

The trends and developments outlined in the previous section will require major adaptations by our state-local systems of government. A continued "sorting-out" of responsibilities and resources among the federal, state, and local levels can be anticipated. It should be recognized, however, that the debate over "sorting-out" is first a federal-state government issue and then a state government-local government issue. It may be possible to reach fairly agreeable decisions on the distribution of responsibilities between the national government and the 50 states. The subsequent response by the individual states, however, will vary largely and depend on their historical pattern of laissez faire, moderate, or active public policy postures, and the extent of fiscal and service centralization or decentralization in relation to local governments.

This section explores some of the options available to state and local governments in realigning their fiscal and service delivery systems to cope with federal devolution. Actions that cities might take to help themselves are not covered. Rather, the focus is on alternatives available at the state, substate, and metropolitan levels. These include state fiscal policies; realignment of state-local functional roles; state organizational alternatives; and substate arrangements, such as increased utilization of regional bodies, structural reform, and metropolitan financing.

Fiscal Policies

Essentially five fiscal policy options are available to the states: raise revenues; modify revenue sources; modify the state program package and reduce expenditures; improve program management and increase targeting of resources; and shift costs and responsibilities to the private sector. These, of course, are not exclusive options and can be used in combination.

The raise revenue option is likely to be more viable over the longterm, if and when the national economy improves. It is also a feasible approach for those states with strong economies, unused tax capacity, or low levels of tax effort, or for those possessing mineral resources subject to severance taxes. Tax and expenditure limitations are prevalent, and as noted, severely constrain this alternative.

The modify revenue sources option entails shifting a state's reliance from one tax base to another, for example, placing a greater emphasis on corporate and personal income taxes or on state and local sales taxes to relieve the property tax. This option has limited applicability, however, since most of the states have already diversified and modernized their tax systems. In 1979, according to the ACIR, "41 states had a broad based income tax; 45, a corporate income levy; and a like number, a general sales tax. Generally, 37 states used all three of these revenue sources in 1979, compared to 19 in 1960" (Walker, 1980:8). A few states, e.g., Tennessee, Connecticut, and Washington, have not adopted a personal income tax and could exercise this option.

To the extent that states are unable or unwilling to raise revenues through increased taxes, they may have to reduce expenditures or terminate programs. This alternative may be chosen by states as a consequence of the transition from a largely categorical aid system to block grants. As William G. Colman (1981) explained in his testimony to the House Intergovernmental Relations Subcommittee:

> Previously earmarked proportions of funds for specialized categorical and subcategorical purposes—purpose previously having been identified as a national interest by the Congress—will begin to shift according to the scale of priorities in each recipient jurisdiction. Often some will disappear completely from a particular state or local budget—simply because that jurisdiction does not find the service or the public desire for it to be so vital as that earlier perceived by Congress.

State adjustments in program priorities could lead to the termination or reduction of some public services that are important to larger cities, but not considered vital by other constituencies in a state.

Another alternative is for states to take steps to improve program management and productivity in their service delivery systems and to tighten eligibility for certain programs. Productivity gains, possible through the application of a wide variety of techniques, and improved management can produce some savings. Concerted action by the states to eliminate "fraud, waste, and abuse," as has been undertaken at the national level, could also produce considerable savings.

Tightening eligibility requirements can work either to the advantage or disadvantage of cities depending on whether the program serves people or places. Restricting the number of eligible clients for welfare and social services could affect city residents adversely, especially if income limits are used, since the cost of living and incomes in larger cities are generally higher than in suburban or rural areas.

Limiting program eligibility for economic, community, and physical development programs to distressed areas is an option that states might adopt (Warren, 1981). The tight budgets experienced by state governments could lead them to develop local aid-allocation formulas that are more closely tied to need. The track record of states in distributing aid on the basis of need, however, could stand considerable improvement. According to ACIR (USACIR, 1983d:22): "Fewer than 10 states distributed funds using formulas designed to favor communities with higher tax or debt burdens, lower property wealth, or lower per capita income." A few states—among them, Connecticut and New Jersey—have developed special fiscal aid programs for urban jurisdiction that have high unemployment or show other signs of distress.

Program effectiveness can be improved by developing state urban strategies or "community conservation" policies whose purpose is to coordinate and integrate state programs and actions. Warren (1980:3) defined a state urban strategy as

> an explicit policy framework containing a set of articulated goals and policies with identified programs and activities which can address issues of growth, development, or decline affecting the state's communities.

The application of strategic management and planning techniques to state government holds the promise of better resource utilization and more effective state intervention to meet urban problems.

The final option, privatization, is probably more applicable at the local than the state level. For example, impact fees levied by local government on new development can support some of the costs of needed infrastructure. Increasing charges on permits and business licenses is another state option, but this might tend to produce a less favorable business climate and discourage economic development. Other than the increased use of tolls and other user charges for state services, the shifting of state expenditures to the private sector has limits. Some state services, e.g., courts and prisons, are simply too "public" to be shifted to private sector providers.

State-Local Functional Assignments

State assumption of local functions is unlikely to increase significantly outside of those areas in which state governments are already heavily and traditionally involved. The four major functions of education, public welfare (including Medicaid), health, and hospitals account for 63 percent of state expenditures and 83 percent of state-local aid (USACIR, 1981a). Thirty-five states are responsible for the full share of AFDC costs. Public welfare and health are precisely the areas in which the largest federal budget cuts were made and in which costs are rising fastest. The fiscal pressures on the states in these four functional areas may preclude expansion of state-local aid in other areas.

Increased state financing of education has been proposed many times, and some have advocated 100 percent assumption of local educational costs by the states. This, in return for reduced state aid in other areas, might actually benefit the cities. ACIR (1976:41) has long argued for greater state aid to education, which would reduce fiscal disparities and meet the problem of "municipal overburden:"

> Big city schools are further handicapped in the financing of education by the "municipal overburden" with which the local governments there are afflicted. In a major city, the cost of non-educational services may eat up as much as two-thirds of all local tax revenues, leaving only the remainder for education, whereas in many suburban areas, where the overburden is lighter, a far greater proportion of local property tax can be put to educational uses.

While there has been much progress in increasing state financing of local education, the state percentage of state-local expenditures for education on a national average was still only 53.2 percent in 1982 (USACIR, 1983c).

Both ACIR and the nation's governors have argued for a complete federal take-over of AFDC and Medicaid payments, but the Reagan administration has been cool to the idea. Some have argued against federalization of welfare on the grounds that the leveling-up of welfare payments to those in more generous states would be inordinately expensive, and that the convergence of income levels across the nation's regions would now enable the states to assume the income-redistribution responsibility inherent in welfare payments. The question of federal or state responsibility for income-maintenance programs was raised, and debated vigorously, during the first two years of the Reagan administration. Yet, little progress was made in resolving that question, and by the end of 1983, the issue had been put on the back burner.

If the states agreed to, and were capable of, assuming total costs for the four big functions, it would free up from municipal budgets (on an aggregated, national basis) 26 percent of general expenditures. Such a "sorting-out" would lead to clearer state roles and enable cities to concentrate on the basic services—police, fire, sewers and sanitation, parks and recreation, housing, and urban renewal.

State assumption of public services, especially those of a redistributive character, appears to be an alternative that would reduce considerably the fiscal problems of urban governments. Yet, local preferences and diversity, plus different functional configurations among the states, make this possibility more complex than is first apparent. A number of variables can intervene to make this option less attractive. Depending on the type of state tax used to finance the service, the state requirements imposed on its delivery and eligible recipients, and the location of the clientele served, the incidence of the tax burden resulting from the shift from local to state financing could be greater on urban residents than on other constituencies.

Other State Actions

A wide range of other state actions can be undertaken to assist urban governments and residents. Illustrations include:

- State growth-management policies and regulations that discourage urban sprawl and encourage "fill-in" and redevelopment.

- Use of state regulatory powers in banking and insurance to prevent "redlining" and encourage community investment.
- Use of state pension funds to finance multifamily housing and other urban development projects.
- State reimbursement of the cost of mandates on local governments.
- Requirement of local fiscal-impact analyses on proposed state legislation.
- Encouragement of small business through the relaxation of state regulations and creation of revolving capital loan funds.

These are just a few of the actions that states can take to support urban areas. Some of these state actions, along with tax rebates or incentives, have been combined into "enterprise zone" legislation in 17 states, such as that enacted in 1981 by Connecticut, Illinois, Louisiana, and Maryland. Connecticut's program (USACIR, 1982b:39) provides a broad package of incentives to stimulate inner city economic development:

> employment training vouchers, venture capital loans, corporate business tax credits, property assessment deferments, job incentive grant increases, sales tax suspension on replacement parts. . . .

A primary virtue of the enterprise zone concept is that it enables states to coordinate and bring together a variety of state tools to aid urban revitalization.

State Organizational Alternatives

Perhaps as significant as individual state actions is the capacity of state government, itself, to address urban policy issues. How state executive and legislative branches are organized can have an impact on state-local relations.

Generally, states have relied on Departments of Community Affairs (DCAs) to provide a focal point for urban and community programs. The effectiveness of these agencies as an advocate for larger cities, however, has been limited. Many of the state DCAs have considered their primary clientele to be the smaller communities which lack staff expertise and welcome state advice and assistance. In other states, DCAs do not have the authority to coordinate the actions of other state agencies nor a direct relationship to the governor.

The designation of a lead agency for urban policy that has a close relationship to the governor and a central policy and coordinating role should be considered. A number of states have created strong offices reporting directly to the governor that combine the functions of budgeting, planning, and policy evaluation. A study of urban strategies in 10 states concluded that the presence of such a central agency was critical to urban strategy implementation (Warren, 1980).

Another organizational mechanism useful to state urban policy implementation is the "development cabinet," such as the one established by Governor Dukakis in Massachusetts and emulated in Michigan. The development cabinet consists of the heads of the state departments or agencies with physical development responsibilities—highways, water, sewer, housing—and serves to coordinate state plans and funding for infrastructure projects in cities.

There has also been considerable experimentation with institutions or mechanisms to improve state-local relationships. ACIR (USACIR, 1981b:1) has recommended that the states create "a state level advisory commission on intergovernmental relations that could serve as a neutral forum for the discussion of mutual interests and problems." As of 1981, 11 states had created advisory committees of local officials by legislation or executive order of the governor. The North Carolina legislature set up a Local Government Advocacy Council to involve local elected officials in the implementation of the state's balanced growth policy. Other approaches to improving state-local relations and involving local officials in urban policy decisions are temporary or permanent commissions on state-local affairs and local government study commissions.

The organization of state legislative bodies also should be considered in developing state institutional responses to urban policy. Some states have standing senate and house committees on local affairs or intergovernmental relations, yet some of the most important legislative decisions affecting cities are made by the fiscal committees—ways and means, and appropriations. There are no pat answers to how state legislatures should be organized to deal with urban policy, but a legislative mechanism that focuses on city issues would appear essential.

Metropolitan or Substate Regional Alternatives

Substate arrangements to meet fiscal disparities or alleviate problems caused by local government fragmentation could offer substantial assistance toward meeting urban needs. Interest in metropolitan approaches goes back to the turn of the century. While the number of proposals and reform attempts has been substantial, accomplishments have been few. Urban researchers have suggested that one of the major reasons why metropolitan reform has met with little success is the lack of public crises of sufficient proportion and visibility to provide the impetus for changing the status quo. Some of the trends and developments discussed in this paper may constitute the ingredients for that requisite crisis. It is difficult to predict, however, whether these changes in federalism will lead to an increase in the reliance on metropolitan approaches or to a withering of the regional institutions that are now in place.

The federal program and budget changes initiated in 1981 have had a strongly negative effect on substate regional agencies. Bruce McDowell (1983) has detailed how the federal government had created a network of regional planning organizations over a period of 20 years and then in only 1 year had almost completely withdrawn its support. Federal financial support for regional planning had constituted, on the average, 76 percent of the budgets of generalist regional councils and 92 percent of the specialized regional agencies. A survey (Reid and Stam, 1982) of the federal budget reductions in the 39 programs that supported multicounty, substate activities described the impact on regional agencies:

> Many already have been forced to make cuts, often major ones, in staff and activity levels. Two 1981 surveys of regional councils found the average council expecting a cut in federal funding of 40 to 50 percent. Even larger cuts are in store for some, and 5 to 10 percent either have been or estimate they will be forced out of business.

A 1981 conference at Princeton University on "Assessing Regional Planning" provided a wide variety of perspectives on prospects for the future and stressed the importance of state government to the continued viability of regional agencies (Warren, 1983:161):

> Yet, this meeting did result in a consensus that the future of regional planning rests primarily with state government. The future viability and utility of regionalism does depend upon the interest and support of the states. This conclusion raises a further set of questions that are still unanswered. How can regional councils gain state support? Can regional councils serve both the state and local governments? Are regional councils politically useful tools for state government? Can regionalism contribute to better governance when there are less resources for government?

Regional Programming and Interlocal Coordination

Some have argued that an imperative for greater use of regional governance will be brought about because of the conditions of fiscal austerity expected to prevail through the 1980s (DeGrove and Stroud, 1981:45):

> Despite the changed federal presence, the need for planning and service delivery at the grass roots will not be diminished, but in fact will be intensified substantially, both in geographic areas of economic growth and economic decline. This is because in times of resource scarcity, the most efficient use of resources rises greatly in importance, particularly when the electorate demands greater efficiency from government managers.

There is enormous duplication of effort and considerable inefficiency in the current system of service delivery, some of which could be reduced through regional arrangements.

One alternative suggested for reducing service duplication and improving resource allocation is the concept of "regional programming," defined as "the explicit linking of substate regional planning to the budgeting and funding processes of all units and levels of government in the region" (DeGrove and Stroud, 1981:55). A number of substate districts have used regional programming to coordinate capital improvement expenditures. Kentucky has had success in its use of 15 area development districts to integrate work elements and funding from federal and state programs. The districts develop regional plans for implementation of various capital projects. Their experience has shown that regional programs can reduce administrative costs, as well as the implied costs of uncoordinated capital spending. A similar approach is being used by the Twin Cities Metropolitan Council in Minnesota, which has adopted an "investment framework" to examine local government budgets and to ensure that state investments are consistent with regional development.

Local Government Reform

Structural reform can also contribute to urban problem solving, and several options are available for reorganizing local government. There are 25 city-county consolidations in the United States. But since 1921, only 20 percent of those attempted have succeeded when put to a vote (USACIR, 1982a:396). City-county consolidation may become a more attractive option because of the fiscal demands on local government, but its use is probably limited to the 73 entities that are single-county and smaller metropolitan areas. Annexation is another approach that should be made easier for cities by the states, yet, here again, its utility is limited to cities in areas where the suburban development is not already incorporated.

A more applicable possibility is the creation of two-tier or multi-tier metropolitan governments, where the local units retain their identity but receive regional services from a new metropolitan entity. The Portland Metropolitan Services District is the only example in the United States of a directly elected regional government. The Municipality of Metropolitan Toronto is a long-standing Canadian example of this approach to areawide governance.

Structural reform of general-purpose local governments might become a more feasible alternative than it has been in the past, but it will still be difficult to achieve. A more promising arena for institutional change should exist at the regional level. The most numerous form of government in the United States is the special district, their number totals 25,962. While most are small and have few or no employees, many of them are metropolitan in scope and deliver services across local government boundaries. Consolidation of regional authorities and special districts is one of many alternatives that should be explored. Short of merger, some special districts can be better coordinated by combining their separate policy boards or by requiring policy or budgetary review of their programs and activities.

Metropolitan Financing

It has been argued repeatedly that there are sufficient resources in our metropolitan areas to finance public services, if those resources were properly distributed or shared (Hovey, 1977). Aside from an arrangement that enables cities to annex the tax base that lies outside their boundaries, two metropolitan fiscal arrangements that could be adopted are tax-base sharing and regional financing.

Tax-base sharing is in effect in the Minneapolis-St. Paul region, and, in a more limited form, in the Meadowlands area of New Jersey. Under this system, a percentage of the increased valuation of new commercial and industrial properties is pooled at the metropolitan level and added to the tax base of all jurisdictions in the region. Tax-base sharing provides one means of enabling the whole metropolis to share in a region's growth. It does, however, take a number of years for the property value increases to accumulate and make a significant contribution to the revenues of any single jurisdiction. This approach does not always benefit the central city as much as suburban governments, since they often have a lower per capita property valuation.

Metropolitan-wide financing of regional services is another commonly proposed alternative. A number of facilities in the central city, such as the art galleries and museums, symphony and concert halls, zoos, and hospitals, serve an entire region and logically should be financed on a regional basis. The Portland, Oregon, zoo, for example, is now financed through a property tax levied on residents of the metropolitan district. Regional transit facilities also require an assured base of region-wide financing, which could be achieved by a regional add-on to the local sales taxes of the jurisdictions served. Of course, many services, such as water and sewer, are provided by regional authorities and financed by user charges.

CONCLUSION

Some of the major trends and developments of American federalism identified in the preceding pages are summarized below. These statements are obviously generalizations about a numerous and complex set of actors and conditions. The impact of these trends will vary enormously—some communities will hardly be affected, others will face tremendously difficult choices. The assertive language used in the statements is intended to help focus and sharpen the issues confronting urban policy in the changing American federalism.

- Federal aid to state and local governments will continue to decline in constant dollar terms and as a percentage of the national budget.
- Federal aid will be channeled increasingly through state governments and delivered via block grants rather than narrow-purpose categorical grants.
- States will exercise greater discretion over the use of their own federal aid and over federal funds passed through them to their local governments.
- The functional and programmatic responsibilities of state governments will increase as the federal government reduces its funding for, and involvement in, domestic program areas.
- Fiscal pressures on state and local government will continue to strain budgets and make resource allocation decisions difficult. State revenues will be volatile as the economy improves and recedes.
- Economic constraints and national restrictions on tax-exempt financing will reduce capital investment by the state and local sectors and in some communities retard economic growth.
- Financing of physical development and infrastructure, with the exception of highways, will shift in

creasingly to local governments, public authorities, and the private sector.

- Public resistance to increases in state and local taxes, especially property taxes, will continue. Marginal increases in sales tax rates and new or increased user charges will provide some added revenue for states and localities.
- Private sector responses to the cutbacks in public spending will increase, but will be markedly insufficient in meeting problems of the chronic unemployed and of displaced workers from declining industries.
- State-local relations will improve in some areas; however, fiscal and local autonomy issues will continue to produce conflict between local governments and state legislatures.

The existing and foreseeable developments in the federal system are leading to a serious evaluation and reappraisal of the responsibilities of federal, state, and local governments. These examinations, in turn, should result in major adjustments in the role of each level of government and of the private sector. On the positive side, a range of alternatives and options are available to prevent the chaos and governmental collapse which present-day doomsayers might predict. There is opportunity for viable urban policies within the New Federalism, but only if the necessity of change is accepted. The challenge is to ensure that the changes and adaptations that are made produce policies that are fair, just, and equitable.

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2

The Supreme Court and the Federal System: A Constitutional Framework for Urban Policy

Royce Hanson

INTRODUCTION

In his State of the Union message in 1982, President Reagan proposed a "bold initiative" to reform the federal system by devolving some functions performed by the national government to the states in exchange for full assumption of other responsibilities at the national level. In proclaiming his New Federalism, Reagan follows in the footsteps of every president since Eisenhower in trying to do something about the arrangement of powers and responsibilities in the federal system. Each has made some change in federal programs and fiscal relationships.

The impact of the presidents and the Congress on the ultimate distribution of power in the federal system, however, has been deeply affected—at times reinforced and at other times contradicted—by decisions of the Supreme Court that have incrementally defined the constitutional basis of the federal system. In some cases it has been clear that the Court was dealing with basic organic relationships of the levels of government. In other cases, profound impacts on the constitutional foundations of federalism have come about through decisions focused on issues of substantive policy. It is also clear that the current Court is deeply divided in its vision of the constitutional shape of the federal system. There are now jurisprudential straws in the wind that could blow several ways.

A brief review of the history of the federal system makes it clear that one cannot talk about restoring the states to their former role in the system, or about major changes in the balance of power between the states and the federal government, without reckoning with the way in which the Supreme Court views federalism. By 1950, the Supreme Court had basically completed a fundamental transformation in the constitutional underpinnings of the federal system. It had all but abandoned the nineteenth century doctrine of "dual sovereignty," which held that the national and state governments operated in separate spheres, each "sovereign" within its sphere and protected by the Constitution from intrusion into its governmental powers by the other (Corwin, 1950). In place of dual sovereignty the Court had erected a new doctrine, "cooperative federalism," by approving New Deal legislation that expanded the reach of the Commerce Clause and sanctified almost any action taken by Congress pursuant to its power to tax and spend.

After upholding most of the New Deal statutes, the Court continued a course of even more expansive interpretation of the Constitution's grants of national power. By 1960, the classic "layer cake" image of the federal system was supplanted by the notion that the federal system could best be described as a "marble cake," in which the functions of government were inseparably mingled "in vertical and diagonal strands and unexpected whirls" (Grodzins, 1960:265–266). During the 1960s and early 1970s, the civil rights movement had in many ways as important an impact on the shape of the federal system as the New Deal, as the Court incorporated most of the Bill of Rights into the Fourteenth Amendment and greatly expanded the role of the federal courts in supervising the states directly in the performance of their constitutional duties.

One might conclude that the growth of national constitutional power in the twentieth century came at the expense of state and local power. However, this same period has been a time of great vitality, growth, and change for state and local governments. In many respects, the Court has sanctioned the expansion of their powers and at the same time restrained them in conflicts with the national government or forced them to reform themselves as in the reapportionment cases.

As important as the actions of the Court have been, it must be remembered that much of what it has done simply ratifies actions taken by Congress and the national executive. It has been loath to find reasons for setting aside laws and regulations that assert a national purpose, even though they may require major changes in the ways in which state and local agencies have done business. As a consequence, the path of the Court has been neither straight nor narrow. It has picked and chosen, with increasing uncertainty in recent years, from a Chinese menu of ideas about the nature of the federal system. The discussion that follows describes those choices and analyzes their impact on the federal system and on the opportunities that remain open for redirecting its nature within the framework of existing constitutional law and doctrine.

THE DEATH AND LIFE OF SUBSTANTIVE DUE PROCESS

Because of its effect on the power of states to regulate economic activity and privacy, substantive due process has been one of the most important legal forces in federalism. Substantive due process is a Court-made doctrine that reads substantive, as opposed to merely procedural, rights into the Due Process Clause. In effect, judges use substantive due process to substitute their judgment of the wisdom of legislation for that of the legislature. By use of the doctrine, the Supreme Courts of the late nineteenth and early twentieth centuries struck down as unconstitutional a variety of federal and state regulations of economic activity.

In many respects, substantive due process was the legal foundation of the emerging capitalist system in the United States (Commons, 1957; Stern, 1951). By invoking the doctrine, the Court prevented major federal inroads on state power under the Commerce Clause and was thus instrumental in guarding the concept of dual sovereignty.

A major switch in judicial approach to economic regulation, which began with the Court's decision in National Labor Relations Board v. Jones and Laughlin Steel Corp., 310 U.S. 1 (1937), is important because of the intimate connection between laissez-faire economic policy and dual sovereignty. Originally, substantive due process was used to strike down economic regulations of which the judges did not approve at either level of the federal system. However, since National Labor Relations Board, no federal and only one state economic regulation has been held unconstitutional as a violation of substantive due process. Abandonment of the doctrine made it possible for the national government to use the

Commerce Clause as an instrument of intervention in many areas of local economic activity, thus promoting the new concept of cooperative federalism as both levels of the federal system attacked the problems of the Great Depression.

In 1963, the Court firmly renounced substantive due process as a doctrine applicable to economic regulation (Ferguson v. Skrupa, 372 U.S. 726 (1963)). The doctrine has, however, continued to lead a robust shadow life in noneconomic issues and has resurfaced as a restraint on state power, particularly through the development of the idea that privacy is a fundamental constitutional right comparable to First Amendment freedoms.

Initially, the Court found a basis other than substantive due process on which to ground the right of privacy. In Griswold v. Connecticut, 381 U.S. 479 (1965), which held Connecticut's anticontraceptive statute unconstitutional, Justice Douglas, writing for the plurality, found the right to privacy in the penumbras of other rights expressed in the Bill of Rights. Other justices found it in the Ninth Amendment's allusion to residual rights. Justice Harlan, however, argued openly in his concurring opinion for a substantive due process basis as no more harmful than stretching specific provisions of the Constitution.

From the point of view of the federal system, the basis of the right of privacy is important. If the right must be referenced to a specific provision of the Constitution, the Court has less latitude for substituting its judgment for that of the state. Ultimately, Justice Harlan's position seems to have prevailed, for as the Court changed, so did receptivity to the revival of substantive due process. In the abortion cases, Justice Blackmun stated that "this Right of privacy, whether it be founded in the Fourteenth Amendment's concept of personal liberty as we feel it is, or in the Ninth Amendment's reservation of rights . . . " (Roe v. Wade, 410 U.S. 113, 153 (1973)) is broad enough to encompass a woman's decision concerning whether to undergo an abortion.

While the Court was developing the concept of constitutionally protected privacy, it was allowing a considerable expansion of state police power to regulate land use. The narrow separation between personal and economic liberties was demonstrated, however, in Moore v. City of East Cleveland, 434 U.S. 494 (1977). Sub stantive due process was explicitly acknowledged as the basis for invalidating a zoning ordinance that prohibited extended families from sharing the same house. The key to the case was the finding that the family relationship involved the fundamental right of privacy. This feature of the case distinguished it from Belle Terre v. Boras, 416 U.S. 1 (1974), in which the Court upheld an ordinance that restricted the number of unrelated individuals who could live in a single residence.

Recently, however, the Court may be rethinking the extent to which it will allow state and local governments an almost free rein in the regulation of property and economic interests. While upholding New York City's historic landmark ordinance, the Court revived one of Justice Holmes' most curious epigrams: "[W]hen a regulation goes too far, it will be recognized as a taking" (Pennsylvania Coal Co. v. Mahon, 260 U.S. 393 (1922)). In effect this warned the states and local governments that the Supreme Court could well substitute its judgment for theirs in deciding if a regulation is wise, rather than confine itself to deciding whether its enactment or execution was precedurally acceptable under the Constitution, i.e., whether it had a rational basis. Other language in the opinion also raised a question about whether the Court was again indulging in the invention of economic rights, much as it had in the development of the right of contract in the late nineteenth century. Justice Brennan mentioned that "investment-backed expectations" may be entitled to constitutional protection (Penn Central v. City of New York, 438 U.S. 104, 124 (1978)). Later decisions have given investment-backed expectations increasing substance (Simeon, Larson, and Porter, 1982, and the dissent in San Diego Gas and Electric Co. v. City of San Diego, 450 U.S. 74 (1981)).

These later cases suggest that in contrast with the first three decades after the great battles with and within the Court over the use of substantive due process to invalidate the New Deal's economic laws, the current Court is less reluctant to find new rights in the Due Process Clause. On balance, however, substantive due process still languishes in judicial purgatory. This may be because there are other doctrines available to the Court for restraining state regulation of economic affairs, including limitations on municipal immunity from antitrust actions (Freilich and Carlisle, 1982).

Substantive due process has had a brief revival, then, where there is an issue affecting the personal rights of individuals to make choices for themselves free from state interference. Generally, these choices involve procreation, marriage, abortion, the rearing of children, and other family relationships. To interfere in these matters, the state must show a compelling interest and that its laws are necessary or substantially related to protection of that interest. From a federalism perspective, the expansion of substantive due process to encompass these areas at a time when there is much talk of devolution of powers to the states is ironic, since domestic relationships is one of the historic areas "left" to the states to regulate. The privacy cases, by reviving substantive due process, brought the Court back toward its earlier pattern of questioning economic regulation, first where privacy was implicated, as in Moore, but also in other areas of economic regulation, as in the zoning cases.

BALANCING TESTS AND DEFERENCE TO THE STATES

While being so self-conscious about the indiscriminate use of the Due Process Clause, the Court has relied on other parts of the Constitution as a basis for defining the limits of state power. In cases involving the Commerce Clause, the issue often turns on whether a state regulation of economic activity unreasonably burdens commerce. In such cases the interest of the state must be balanced against those of the national government.

In Kassell v. Consolidated Freightways, 450 U.S. 662 (1981), a plurality of the Court struck down an Iowa limitation on the length of trucks as lacking a sufficient state interest to prevail against the national interest in interstate commerce. Although the Iowa statute was based on findings respecting public safety, and the Court is usually deferential to the states when safety is invoked, the Court held that a state must do more than merely assert safety as its reason for regulation. Essentially, the Court substituted its judgment for that of the legislature on the safety issue (Sager, 1981). In a more recent case, a Connecticut regulation of tandem trailers was set aside on the straightforward ground that Congress had preempted state authority in such matters.

When the state itself has entered a market, the Court has tended to be more generous in balancing the national and state interests. White v. Massachusetts Council of Construction Employees, Inc., 103 S.Ct. 1042 (1983) held, for instance, that the Commerce Clause did not prohibit the city of Boston from requiring that all construction projects funded in whole or in part with city funds be performed by a work force of which at least half were Boston residents.

While the record is mixed when it comes to balancing state and national interests under the Commerce Clause, the Court has fairly consistently maintained a more deferential attitude toward state taxes when they are challenged as impairments of property rights. It has upheld severance taxes on Montana's coal (Commonwealth Edison v. Montana, 103 S.Ct. 2246 (1981); and California's unitary corporate franchise tax Container Corporation v. Franchise Tax Board, 103 S.Ct. 2933 (1983)). Taken together, these cases amount almost to a doctrine of judicial deference to state legislatures, providing only a limited review for state tax schemes.

In the years following the New Deal, the Court took a fairly deferential attitude toward state laws affecting contractual rights, so long as the basic obligation was left intact. In recent years, however, it has begun to restrict state creativity in contract matters and to apply a higher level of scrutiny to state laws that alter the terms of contracts. This is especially the case when the state itself is a party to the contract (United States Trust v. New Jersey, 431 U.S. 1 (1977); Allied Structural Steel Corp. v. Spannaus, 438 U.S. 234 (1978)). In 1983 the Court upheld a Kansas statute that regulated the price of natural gas. The state clearly was a party to the contracts, but the Court held that it acted not as a contractor, but as a regulator (Energy Reserves Group, Inc. v. Kansas Power and Light, 103 S.Ct. 697 (1983)). Applying the tests developed in the earlier cases, the Court said that in contract cases a sliding scale would be applied, increasing with the level of severity of the impairment of the contractual obligation. If there is a substantial impairment, the state must justify it with a "significant and legitimate public purpose" for the regulation. The Court was not very rigorous in identifying such a purpose, accepting the state's explanation that it wished to eliminate unforeseen windfall profits by the gas company.

On the whole, the balancing and sliding-scale tests applied by the Court in Commerce Clause and Contract Clause cases have not greatly restricted the states, even though they leave them a bit uncertain about where the Court will strike the balance in the next case it hears. State tax measures, on the whole, seem to be treated with more deference by the Court. Looking at the cases in these arenas together, one has the impression that while these tests or doctrine allow the Court to substitute its judgment for that of state legislatures, it has been quite circumspect about doing so. The net result seems to be a perceptible increase in the protection given property and economic interests against state regulation, but virtually none against state taxation. This apparent ambivalence by the Court may stem from the ambivalence that now pervades economic thought. Neoclassical economics has made quite a comeback from its depression era rout by the Keynesians, but it is not yet a consensus view of how the economy should work (Thurow, 1983). Under the circumstances it is not unusual that the Court should be uncertain whether to hold to post-New Deal precedents or to turn to the lights beckoning on the philosophical right.

EXPANSION OF THE REACH OF THE FOURTEENTH AMENDMENT

Dual sovereignty survived the Civil War because the Supreme Court restricted the reach of the Fourteenth Amendment. In the Slaughter House Cases, 83 U.S. 36 (1873), the Court held that the power to define civil rights remained with the states. Subsequently, it invented the "state action" doctrine as a limitation on enforcement of the Civil Rights Act of 1871, thereby limiting actions against private parties for interfering with one's civil rights (the Civil Rights Cases, 109 U.S. 3 (1883)). And in Plessy v. Ferguson, 163 U.S. 537 (1896) it propounded the infamous "separate but equal" doctrine. Equal protection consisted essentially of requiring that state classification systems be nondiscriminatory in design, or at most, that they not be applied in a discriminatory manner (Yick Wo v. Hopkins, 118 U.S. 356 (1886)).

With the exception of the separate but equal doctrine, these limiting doctrines have not been overruled by the Courts that affirmed the New Deal and the civil rights movement. Most of the old precedents have been greatly diminished, however, or reinterpreted to make them a basis for expanding the reach of the Equal Protection Clause.

The great achievement of constitutional interpretation of the Fourteenth Amendment has been the "incorporation" doctrine, by which the Court has gradually brought most of the Bill of Rights into the amendment and thus made the main elements of the first eight amendments apply to the states as well as to the national government. For all practical purposes, substantive and procedural political and civil rights have been nationalized (Chase and Ducat, 1978).

The consequences for the federal system have been enormous. Almost every aspect of state and local government has been affected. In contrast with the view of the constitution as seen through the lens of dual sovereignty, substantive rights are now seen as flowing directly from the federal Constitution and statutes rather than from state constitutions and laws, although the states still retain extensive control over procedural rights in civil matters.

Another important result of the active assertion of the Fourteenth Amendment on the federal system is that many matters of state organic law have come under the supervision of the federal courts. State elections, the apportionment of state legislatures and local governing bodies, state education systems, and other institutions have all been measured against the standards of the Equal Protection Clause and found wanting. The result has been to limit substantially the range of state discretion in the design and administration of its institutions of governance. Yet, an irony of the reapportionment cases in particular is that they were instrumental in the renaissance of state government as a potent force in the federal system.

The school desegregation cases have established the principle that the federal courts, under the Fourteenth Amendment, have the constitutional power to enforce their orders against the active or passive resistance of the states (Swann v. Charlotte-Mecklenburg County Board of Education, 402 U.S. 1 (1972)). As this doctrine has been extended to school litigation and civil rights cases involving the operation of other state and local institutions and agencies, the federal courts have not infrequently found it necessary to use "administrative" or "structural" injunctions, maintaining jurisdiction over an agency's compliance and on occasion directly administering the agency itself (Schuck, 1981).

To an increasing extent, federal courts have become a "shadow government" in cases in which state and local officials refuse to meet constitutional standards for the protection of substantive rights that have been incorporated into the Fourteenth Amendment. The use of the administrative injunction has raised serious questions about the appropriateness of judicial administration of state agencies (Glazer, 1978). An unresolved problem of the federal system is how to ensure that national objectives and constitutional rights are honored by the states. Thus far, the political systems of accountability seem to have failed, leaving those who seek to vindicate their national rights dependent on the courts in holding the states accountable for performance.

One of the features of litigation under the Fourteenth Amendment is the concept of "strict scrutiny" of state action that is racially discriminatory on its face. In such cases, and in cases in which a fundamental constitutional right, such as those protected by the First Amendment, is implicated, the Court has applied the strict scrutiny doctrine and has shifted to the state the burden of proving that its action is necessary to meet a compelling state interest. Once strict scrutiny is invoked, the state is going to lose the lawsuit (Massachusetts Board of Retirement v. Murgia, 427 U.S. 307 (1976)).

This view of fundamental rights contrasts sharply with the wide discretion given the states for economic regulation. There the states need show only that the action is a reasonable means of achieving a legitimate purpose (McGowan v. Maryland, 366 U.S. 366 (1961)).

In the last 20 years, the Court has begun to develop an intermediate level of scrutiny for state classification system that, unlike those based on race, are not flatly prohibited in express terms or clear historical implication by the Constitution. States have been required to show that status classifications based on gender, age, alienage, or legitimacy meet an important state purpose and that they are substantially related or necessary as a means of meeting that purpose (Craig v. Boren, 429 U.S. 190 (1976); Massachusetts Board of Retirement v. Murgia, 427 U.S. 307 (1976); Flyer v. Doe, 457 U.S. 202 (1982); Orr v. Orr, 444 U.S. 1060 (1979); Illinois Board of Elections v. Socialist Workers Party, 440 U.S. 173 (1979)). When these cases are added to the

Contract Clause cases, discussed above, the picture emerges of a gradually tightening noose of judicial doctrine around several areas in which the states had wide discretion in the past.

One of the most important areas of limitation on state power is that of criminal justice. Since the early 1960s, the Court has brought most of the state criminal justice system within the protection of the Fourth, Fifth, Sixth, Seventh, and Eight Amendments, using the incorporation doctrine. The effect has been to change substantially the ways in which state and local police departments, prosecutors, courts, and corrections institutions operate. To a remarkable extent, the rights of defendants have been nationalized. States remain in charge of their own criminal justice systems, but they must operate them according to national standards based on the Bill of Rights.

The exact boundaries of state discretion under the Fourteenth Amendment are by no means fixed. They shift with the membership of the Court and the factual conditions of the cases presented to it for resolution. The Court has rejected efforts to find a right to housing in the Equal Protection Clause (Lindsey v. Normet, 405 U.S. 56 (1972)). It also turned aside the argument that the Equal Protection Clause compels equal levels of educational services to poor and rich communities (San Antonio Independent School District v. Rodriguez, 411 U.S. 1 (1979)). And it has declined to forbid exclusionary zoning where no discriminatory intent has been proved (Village of Arlington Heights v. Metropolitan Housing Corp., 429 U.S. 252 (1977)).

While the precise limits of state power under the Fourteenth Amendment are not always clear, what is clear is that the Supreme Court will not hesitate to determine the extent of the state's obligation either to refrain from action adverse to a constitutional right or to impose an affirmative duty on the state to ensure the protection of a constitutionally based right. This is a sharp departure from the deference shown the states under the dual sovereignty doctrine.

ENFORCEMENT OF FEDERAL CIVIL RIGHTS STATUTES AGAINST THE STATES

Civil rights is an important aspect of the state action doctrine that has changed significantly in recent decades. Except for the Civil Rights Acts passed during the Reconstruction period, Congress did not enact laws to enforce the Civil War amendments. When the Court began, after World War II, to expand the concept of state action to include any action sanctioned by the state, such as the enforcement of private covenants and contracts, the Civil Rights Act of 1871 (42 U.S.C. Section 1983) became an effective weapon against state-supported or state-tolerated discrimination.

New civil rights legislation enacted in the 1950s and 1960s not only limited the powers of the states, but used the authority granted Congress by the Civil War amendments and the Commerce Clause to impose affirmative duties on the states to carry out national policies designed to end discrimination and even to compensate for past racial discrimination. By 1977 it was possible to say that "constitutional enforcement of civil rights against the states is the essence of modern federalism" (Tribe, 1977:1065).

The greatest judicial achievement in this arena was the rehabilitation of Section 1983 from its 90 years of obscurity. In Monroe v. Pape, 365 U.S. 167 (1961), the Court held that a citizen could sue for protection of civil rights in federal court without first going to state courts; state officials acting under the color of law were made subject to suit for damages, but states and municipal governments remained immune from damage suits brought under the act. Then, in Monnell v. New York City Department of Social Services, 426 U.S. 658 (1978), the Court overruled Monroe's immunization of local governments. Finally, in Owens v. City of Independence, 445 U.S. 622 (1980), municipalities were also stripped of their ability to rely on a "good faith" defense to obtain immunity from suit under Section 1983.

This line of decisions left local treasuries vulnerable to damage claims when local actions deprived an individual of rights arising from the Constitution or federal laws. Minorities, employees, developers denied desirable permits, and assorted others were quick to elevate their grievances to federal cases. The principal defense available to states and cities, of course, is prophylactic: policies and procedures that meet constitutional standards and internal procedures that guard against official negligence or abuse (Peters, 1981).

Beneath the mainstream of constitutional decisions on Section 1983 that eroded immunity for state and local government violations of federal civil rights guarantees, there runs an undercurrent of argument that is expressed in dissents, in temporizing opinions of the majority, and in occasional majority or plurality opinions. This undercurrent draws on a concern for the vitality and autonomy of the states and local governments. It is expressed in prudential doctrines that permit deference to the states, particularly the state courts, in the determination of such controversies and that, under the Eleventh Amendment, prevent suits in federal courts against states by their own citizens without the states' permission.

In Younger v. Harris, 410 U.S. 37 (1971), the Supreme Court set aside a federal court injunction against state prosecution under the California Criminal Syndicalism Act as a violation of the national policy forbidding federal courts to enjoin pending state court proceedings except under special circumstances. After making the basic equity argument that the federal courts should not intervene if the defendant can raise the federal rights issue in the state proceedings, Justice Black, speaking for the Court, went on to state that the underlying reason for the rule was the notion of comity for state functions. "Our Federalism," he declared, represents "a system where there is sensitivity to the legitimate interests of both the State and Federal Government; anxious though it may be to vindicate federal interests, [it] always endeavors to do so in ways that will not unduly interfere with the legitimate activities of the states" (401 U.S. 37, 41).

The federalism basis for abstention was carried to its furthest point in Rizzo v. Goode, 423 U.S. 362 (1976). The city of Philadelphia sought to dissolve a federal court injunction imposing new complaint procedures on the police department. The Supreme Court set aside the injunction after holding that the complainants in the case lacked standing and that the failure of city officials to improve the complaint procedures was an insufficient basis under Section 1983 for an affirmative injunction requiring a particular form of action by the city. However, the Court went on to assert that important considerations of federalism also weighed against enjoining local officials to take steps to reduce the scope of unconstitutional police misconduct. "[F]ederal courts," Justice Rehnquist said, "must be constantly mindful of the special delicacy of the adjustment to be preserved between federal equitable relief and State administration of its own law" (431 U.S. 362, 378).

The authority of Rizzo remains unclear in the full context of Section 1983 jurisprudence. It appears to assert that state and local administrative officers are not subject to injunction by federal courts under Section 1983 unless they personally direct the deprivation of constitutional rights. This view, however, clearly does not square with Monnell and Owens, although those suits were for damages rather than injunctions. Those cases make it clear that a city and its officials are not liable simply on a respondant superior theory, at least if they can show that their policies did not condone the alleged unconstitutional conduct. Lower federal courts seem to be following a rule that the government or the supervising officer must have knowledge of or acquiesce in the unconstitutional conduct to be liable.

Pennhurst state mental hospital in Pennsylvania has been the subject of a series of suits under Section 1983, one of which raises the issues of affirmative injunctions and the Eleventh Amendment immunity (long an important aspect of state sovereignty). In the last of these cases, the federal court in 1984 issued an affirmative injunction compelling officials in charge of the hospital to comply with the court's interpretation of a state law. The Supreme Court held that the Eleventh Amendment prohibited enjoining state officials to comply with a federal court's interpretation of state law when such an interpretation is the result of the court's pendant jurisdiction, i.e., when the state legal question is before the federal court as an issue collateral to the federal issues (Pennhurst State School and Hospital v. Halderman, 104 S.Ct. 900 (1984)).

The abstention cases seem almost to be aberrations when viewed in the broader context of Fourteenth Amendment and Section 1983 decisions of the last generation. They are, however, reflective of a growing, but not yet dominant, perspective within the Court that the balance in the federal system has shifted too far toward the national level. The uncertain grip of this idea, however, is revealed in another set of cases that opened and then retreated from the reassertion of the Tenth and then retreated from the reassertion of the Tenth Amendment as a limitation on the power of the national government to act under the Commerce Clause.

A LAST HURRAH FOR THE TENTH AMENDMENT

The boldest statement of a resurgent dual sovereignty to emerge from the Burger Court was the declaration in

National League of Cities v. Usery, 426 U.S. 833 (1976) that the Tenth Amendment operates as a limitation on the Commerce Clause when laws enacted under it impair the ability of the states to function effectively within the federal system. The Court struck down as unconstitutional the provisions of the Fair Labor Standards Act that "operated directly to displace the States' freedom to structure integral operations in areas of traditional government functions. . . ." In reaching this decision, the Court distinguished federal laws that regulate individual businesses, which are subject to the dual sovereignty of the nation and the states in which they are located, from congressional acts directed to the "states as states." Reasoning that the Court had an obligation to protect the sovereignty of the states and their ability to function effectively in the federal system, the Court said that one "undoubted attribute of state sovereignty" is the states' power to determine the wages and working conditions of their own employees who carry out governmental functions. How this came to be undoubted was not made clear.

The Court argued that such federal legislation could impose costs on state and local governments, causing them to change their structures and priorities. The decision, however, did not rest on any factual finding that this was so in the case at hand or that the state interest outweighed the national interest in the wide application of the Fair Labor Standards Act. The opinion also suggests, but does not say, that a distinction might be made between governmental and proprietary functions of state and local governments. Moreover, a footnote warned that the limitations of the Tenth Amendment were good for the Commerce Clause only. Statutes passed under the taxing and spending power and Section 5 of the Fourteenth Amendment might well pass muster even if they do affect the integral operations of state government (Tribe, 1977). To underscore the latter point, in Fitzpatrick v. Blitzer, 427 U.S. 445 (1976), decided only four days later than National League of Cities, the Court sustained the application of a federal antidiscrimination law to state employees. It explained that because the Fourteenth Amendment had the specific purpose of limiting state autonomy, principles of federalism do not restrict federal power exercised under the amendment's umbrella.

THE SUPREME COURT AND THE FEDERAL SYSTEM

The dissenters in National League of Cities thought the decision a repudiation of precedents stretching back to John Marshall. While they lacked the votes to prevail, they chipped away at the doctrine in subsequent cases, and finally Justice Blackmun was convinced to switch sides and overrule the decision in Garcia v. San Antonio Metropolitan Transit Authority (No. 82–1913 (1985)).

By the time the Court reversed itself, it had so restricted the reach of the opinion that it appeared to apply only to the facts of the National League of Cities case. In Hodel v. Virginia Surface Mining and Reclamation Association (452 U.S. 264 (1981)), a unanimous Court refused to apply the National League of Cities doctrine to constrict state ability to make essential decisions about a traditional state function: land use. The Court set out three cumulative requirements for a successful Tenth Amendment challenge to a law enacted under the Commerce Clause: (1) there must be a showing that the challenged statute regulates the states as states; (2) the regulation must address matters that are indisputably attributes of state sovereignty; and (3) it must be apparent that the states' compliance with the federal law would directly impair their ability to structure integral operations in areas of traditional functions.

Since the Court characterized the Surface Mining Act as a regulation of business, it simply preempted state regulations. Thus, the issue of whether land use was an essential function was avoided. In a series of cases after Hodel, the Court confronted the Tenth Amendment and found it still reeking of the truism to which Justice Stone had consigned it in U.S. v. Darby (312 U.S. 100 (1941). Consequently, there was little reason to suppose that National League of Cities was the leading edge of a return to dual sovereignty. If no longer a constitutional corpse, the Tenth Amendment remained comatose.

Then, in Garcia, confronted again with the applicability of the Fair Labor Standards Act to a city government function, the Court, speaking through the converted Blackmun, declared that the attempt to draw boundaries based on "traditional" functions of state and local government was "not only unworkable but inconsistent with established principles of federalism . . ." (No.

82–1913). Although it avoided discussing the Tenth Amendment directly, Garcia is a sweeping renunciation of National League of Cities, arguing that no doctrine of judicial review that purports to separate governmental functions can be squared with the constitutional scheme that gives the states a special place in the governmental system. The real protection for state power, the Court asserted, lay in the structure of government that gives states representation in Congress, gives them a major role in the election of the president, and allows them to control electoral qualifications.

"In short, the Framers chose to rely on a Federal system in which special restraints on Federal power over the states inhered principally in the workings of the National Government itself, rather than in discrete limitations on the objects of Federal authority" (No. 82–1912; New York Times, Feb. 20, 1985:12).

In sorting out the fracas over the Tenth Amendment, it is well to remember that the National League of Cities Court did not overrule Darby. The doctrines of those cases, however, were incompatible. Garcia removed any ambiguity about the power of Congress to affect functions of state and local government through its actions under the Commerce Clause. Like National League of Cities, however, Garcia was decided by only five votes, and the dissenters seemed to promise to rise again. The recent see-saw fortunes of the Tenth Amendment seem to be a fight over a principle with little practical effect.

THE SUPREME COURT AND CONGRESSIONAL FEDERALISM

As we have already seen, the Court has been quite deferential toward the exercise of congressional power, even when the result is the limitation of state power. Given the very limited restrictions placed on the Commerce Clause by the Court and the virtually unlimited discretion allowed Congress when it acts under its taxing and spending powers, the Court can be expected to ratify most congressionally initiated changes in the way the federal system works.

The grant-in-aid system has been the cornerstone of cooperative federalism. Around this cornerstone Congress has erected, with the approval of the Supreme Court, a sprawling edifice of regulations, mandates, and sanctions that have, over decades, redefined the nature of the federal system.

The power of federal grants to modify state and local behavior was not lost on Congress or the agencies of the national government. Soon, in addition to incentives to participate in grant programs, statutes began to include sanctions to be applied against states that failed to carry out integral or related purposes of a program. The Highway Beautification Act, for example, carried such a sanction. States receiving grants under the program were required to set up compensation programs for owners of signs removed from property facing interstate highways. Failure to set up such a program subjected the state to a 10 percent reduction in all federal categorical aid for road construction. When Vermont failed to provide compensation in its sign removal program, the federal court upheld application of the sanctions by the Secretary of Transportation (Vermont v. Brinegar, 379 F. Supp. 606 (D. Vt. 1974)).

Such sanctions have become fairly common in federal statutes, covering such diverse subjects as access to public transportation for the handicapped, prevailing wages for construction laborers, education of handicapped children, age limits for drinking alcohol, and the protection of minority contractors. In Fullilove v. Klutznick, 448 U.S. 448 (1981), the Supreme Court approved the withholding of funds as a sanction for state failure to comply with a federal program requirement that 10 percent of a public works grant be set aside for minority contractors. The Court held that in spending for the general welfare, Congress does not have to be color blind and may impose racial quotas in order to eliminate past discrimination. Lower courts have consistently rejected state and local claims that such sanctions are constitutionally invalid infringements on state sovereignty (Kaden, 1981).

In the federal environmental protection laws, Congress went beyond sanctions on states that fail to comply with program requirements. States are made direct instruments of federal power through requirements that they develop enforcement or implementation programs for the federal policies. If the state does not do so, or if the programs it develops are not acceptable to the federal administrator in charge of the program, then the latter may be required to promulgate a state program and enforce it directly. In Hodel, the Court found that the state was "free" to choose whether to make its regulations comply with federal standards. When it chose otherwise, the federal regulation was held to preempt conflicting state regulations of surface mining.

While Congress cannot require a state to organize its agencies in a particular way or to change its substantive law to meet federal standards, it can apply financial sanctions and preempt state authority when the state declines the opportunity to cooperate. The federal courts have so far been unwilling to require states to carry out federally imposed implementation plans, but they have required them to carry out mandated plans that they developed themselves.

The important point here is that Congress has the power to lift any of these restrictions; they are not constitutionally based. The block-grant approach, more recently favored, combined with the interest in deregulation of the federal system, has given the states and localities more discretion in how they allocate federal funds. But even after the efforts of the Reagan administration to relieve the regulatory burden, these grants retain a large number of procedural and other requirements (Beam, 1984). And despite its interest in deregulation of some aspects of the federal system, the Reagan administration has not been reluctant to use its delegated regulatory power to limit state and local, or even private, discretion in areas where it discerns a national interest that should be protected. Its proposed "Baby Doe" rules, for example, would have imposed sanctions on hospitals that refused to report the treatment of severely handicapped infants. President Reagan has also been a strong advocate of raising the drinking age to 21 and supported and signed into law an amendment to federal highway statutes that penalized states that fail to raise the drinking age.

So long as the Court tolerates the broad exercise of congressional power and the administrative use of broad delegations of power to federal agencies, both seem ever ready to address all manner of problems and to require state cooperation through means both subtle and direct. This proclivity for intervention has led one critic to suggest that both the layer cake and marble cake analogies should be replaced by "fruitcake federalism" (Wildavsky, 1981).

The most important limitation on congressional power to alter the operation of the federal system is not constitutional, but fiscal. As the ability of Congress to increase the share of local and state budgets supported by federal fund transfers is constrained by deficits or other priorities, state and local officials may become far less tolerant of federal standards and use their political power to get them relaxed. Where Congress can concentrate resources, federal influence is likely to remain great. It is also possible that the constraint of federal funds will move Congress to use more overt regulation as a means of advancing national interests rather than rely on fiscal persuasion of state and local governments.

To a considerable extent, cooperative federalism has mutated into "cooptive federalism," in which local government has become a direct partner of the federal bureaucracies and congressional committees, and the states have become constitutional shells with little real influence over their own legal instrumentalities. Recently, however, the shift in expenditure patterns has begun to change this "iron triangle" relationship, and appears to be forcing the states into a more active role. This represents, however, a change in policy, not a change in the legal foundations of the federal system.

CONTEMPORARY FEDERALISM: A CONSTITUTIONAL CHINESE MENU

As one reviews the constitutional law of federalism over the past half century, one is struck by the simultaneous presence of a variety of views and doctrines of the system. The Court draws selectively on these notions. Sometimes it seems acutely aware that it is dealing with federalism as such. At other times, federalism is clearly a collateral issue, used to support an argument perhaps thought in need of an additional doctrinal prop. The case-by-case method of the Court, coupled with its changing personnel, may account for the variety of mutually incompatible ideas that survive. For those who see little virtue in consistency for its own sake and believe that mature pluralistic political systems ought to be able to savor rather than fear conflicting ideas, the peregrinations of the Court represent a search for workable arrangements as well as the spectacle of nine squabbling constitutional oracles. From a constitutional perspective, the states are indestructible, but they pose no insurmountable barriers to a great deal of tinkering with the federal system. For the tinkerers at both ends of the ideological spectrum, this is good news indeed. In the absence of any hardened theory in the constitution of federalism, presidents, congresses, and courts can choose their own favorite recipes from an eclectic menu of constitutional and political concepts. All of these notions of the federal system are available to motivate, to be used, and to rationalize before and after the fact, any decision. Since no case is likely to encompass the full set of relationships that define the system, there tends to be a pragmatic fitting of ideas to each constitutional question as it arises, with the selection being made from the brand of federalism that can capture a majority and explain the answer it desires to offer. The main choices are characterized below.

Mythic Federalism

Long dead in constitutional law, a romantic version of the federal system as the imagined intent of the framers remains a potent influence in political and legal thought. The myth survives that the states created the federal government as one of expressed powers, reserving all other powers to themselves. This view sees the states as a crucial ingredient in the preservation of political liberty, with the division of power between state and federal levels ensuring that the central government cannot destroy the rights of the people to govern themselves through the states. This limitation of the power of the federal government to impose its will on state majorities thus preserves the vitality of pluralism, makes the states more responsive to the interests of citizens, encourages innovation and experimentation in governance, and prevents the conformity and monopoly inherent in centralized government. "Mythic federalism" is the stuff of patriotic speeches and judicial dicta. It has considerable rhetorical vitality and no legal importance.

Dual Sovereignty

Often buried but never quite dead, dual sovereignty remains a distinct constitutional doctrine. Largely vitiated by the New Deal Court and its successors, its specter continues to haunt the Court, rattling its chains in several inconsistent post-World War II decisions. Initially its vitality rested on substantive due process, the Tenth Amendment, strict construction of congressional power, and a crabbed interpretation of the Civil War amendments. Its modern reincarnation depends more on abstention doctrine, one cheer for the Tenth Amendment, and artificial respiration for substantive due process. It no longer provides a regular basis for decisions on federal relationships, but it has reappeared with enough frequency in recent years to make it a spirit to contend with in contexts in which it can pass the laugh test.

Cooperative Federalism

"Cooperative federalism" is an all-purpose descriptive label for the state into which the federal system has fallen (or risen) since the New Deal. Conceptually it is based on federal "incentives" for state and local participation in common undertakings through program administration and cost sharing. As time passed, many programs became more mandatory and less cooperative in real, if not constitutional, terms.

Cooperative federalism requires virtually unlimited power for Congress under the Commerce Clause and taxing and spending power of the Constitution. Thus, it requires a superfluous Tenth Amendment and the interment of substantive due process as a limitation on economic regulation. Cooperative federalism remains the dominant constitutional theorem. While occasionally temporized, none of the basic precedents establishing the doctrine has been overturned, nor does it seem likely that any will be soon. Because of the wide berth they give the Congress, these decisions are enormously beneficial to any who wish to change the prevailing policy balance of the federal system, because their essential theme is "Anything Goes!"

Active Nationalism

Taking inspiration from Hamilton's and Marshall's expansive vision of national power under the Constitution and especially from the idea that the Civil War amendments nationalized constitutional rights, "active nationalism" recognizes no fundamental constitutional constraints on the power of the national government to address major economic problems and to secure individual rights. As a matter of constitutional law, active nationalism requires judicial deference to Congress insofar as its acts affect state power.

States are accepted as part of the nation's administrative and political apparatus, but not as barriers to the achievement of legitimate national objectives. There is no reluctance to impose national standards nor procedural requirements on states as means of achieving those objectives, nor in compelling the states to perform mandated functions.

Judicial restraint is called for in reviewing congressional action, but judicial activism is favored in enforcement of federal constitutional and statutory rights against the states. This view sees the states as backward in both substantive and procedural law and as often downright hostile to fulfillment of national civil rights.

Benign Federalism

A reaction to the perceived excesses of cooperative federalism and active nationalism, "benign federalism" maintains that the states are important parts of the federal system. Thus, it holds that the states should be strengthened in their capacity to administer governmental programs and to experiment with alternative ways of solving problems.

This requires that they be given considerable procedural latitude. Imposition of detailed standards is eschewed in favor of giving the states discretion in meeting generalized objectives, as in block-grant programs. Abstention doctrines are favored as a means of giving state courts a first crack at handling constitutional conflicts with state law, so long as final review by the Supreme Court is not surrendered. There is a strong belief that the federal system has become overloaded with overlapping regulations and that simplification of the system is needed to increase political and financial accountability.

Functional Federalism

The last strain of federalism—"functional Federalism"—draws heavily from public administration theory, but it has antecedents in mythic federalism. Essentially it holds that each level of the political system has its "proper" functions. The object of federalism policy, therefore, is to sort out those functions and tidily divide them between the national and state governments. Functional federalism would divest the federal government of activities that the states can perform better because of their proximity to the people served or because of their inherent position in the constitutional scheme.

IMPLICATIONS FOR THE NEW FEDERALISM AND NATIONAL URBAN POLICY

With the important exception of civil rights, the future character of the federal system is far more a matter of policy choice than of constitutional law. The exception is, however, a vital one.

Congress cannot "return" to the states the power they once exercised in criminal procedure, civil rights based in the first eight amendments, the right of privacy, or other personal rights found to have a constitutional basis. Power over these matters is often freighted with the rawest emotions and the Court's decisions regarding them probably are a major source of much political resentment of national power. The New Federalism cannot do much about them other than temporarily reduce the level of federal enforcement, thus leaving the states more to their own devices. Many of these rights, however, are enforceable through private lawsuits, so while an administration may be able to slow some developments in the law, it cannot entirely prevent them.

Aside from limiting strictly the range of state action in meddling with constitutional rights, the law of federalism has changed since the New Deal in only a few significant respects. States remain independent governments, but their organic structure is subject to federal court supervision if it impairs a constitutional right, such as the right to vote or the right to be represented equally in the legislature. State and local officials and municipalities are no longer immune from suit under Section 1983. While Congress could restore immunity by amending the statute, such action would buck the general trend of reducing the scope of sovereign immunity. Similarly, Congress could restore municipal immunity under the antitrust laws, but thus far it has shown no inclination to do so, even though state discretion has been limited by the antitrust decisions.

The Court has now drawn back from the dual sovereignty implications of National League of Cities. Few, if any, governmental functions of the states are constitutionally immune from federal interference, through exercise of the Commerce power. The existence of states is constitutionally guaranteed, but the nature of relationships between national and state governments was consigned by Garcia to the political process. The Court is loathe to impede the power of Congress to tax or spend or to enforce the Fourteenth Amendment, even when it directly affects state government. In addition, it is clear that Congress may impose statutory mandates and sanctions on the states and that, for the most part, the Court will honor them. With a sharply divided Court, however, the history of federalism doctrine would counsel against an assumption that there will be no more judicial flirtation with some doctrine limiting national power over state functions.

In some respects, the most interesting and potentially far-reaching transformation in the federal system is the extent to which the federal courts have exercised their constitutional equity power to supervise state and local agencies through the use of administrative injunctions. Thus, the courts have become one of the major institutions of the federal system for holding state and local governments accountable for the performance of national constitutional and statutory goals.

Tribe (1977) has neatly summarized the current state of federal affairs: no specific governmental roles or areas of either substantive lawmaking or administrative competence are wholly reserved to the states or entirely immune from either federal preemption or the imposition of federal requirements and standards.

National urban policy implies a national interest in the health of the country's urban areas. The Constitution as read by the Supreme Court offers few restrictions on the federal government in defining and pursuing urban policy, including devolution of urban responsibilities to the states. The states, however, will be held to constitutional standards in administering federal urban policy and in fashioning their own. The efficacy of such policy, state and national, does not rest on how closely it toes the mark of one brand of federalism, but on how well it responds to the governmental interests of the common constituents of local, state, and national governments.

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3

Fiscal Federalism after the California Taxpayers' Revolt: A Sorting out of Sorts

John Shannon

Since the 1978 California taxpayers' revolt, we have witnessed a dramatic change in intergovernmental fiscal behavior-spending acceleration at the federal level and deceleration at the state-local level (see Figure 3-1). This paper addresses three questions raised by this significant divergence in spending patterns:

1. What caused this growing divergence?
2. Are the trends likely to continue?
3. How will fiscal trends reshape federal and state-local relationships?

THE GREAT STATE-LOCAL SLOWDOWN

What caused the great slowdown in state-local outlays after 1978? Fiscal restraint was dictated by the three Rs: revolt of the taxpayers, reduced federal aid flows, and the recession. These three fiscal shocks came in fairly rapid succession. For the first time since World War II it was easier for most state and local officials to say "no" rather than "yes" to requests for spending increases.

Revolt of the Taxpayers (1978–1980)

The taxpayers' revolt not only imposed many tax and expenditure limitations, it also sent a powerful message to state and local policymakers, most of whom escaped highly restrictive fiscal limitations. (For a detailed, state-by-state description of tax and expenditure lids see USACIR, 1984:98–99.) The message was clear: If you

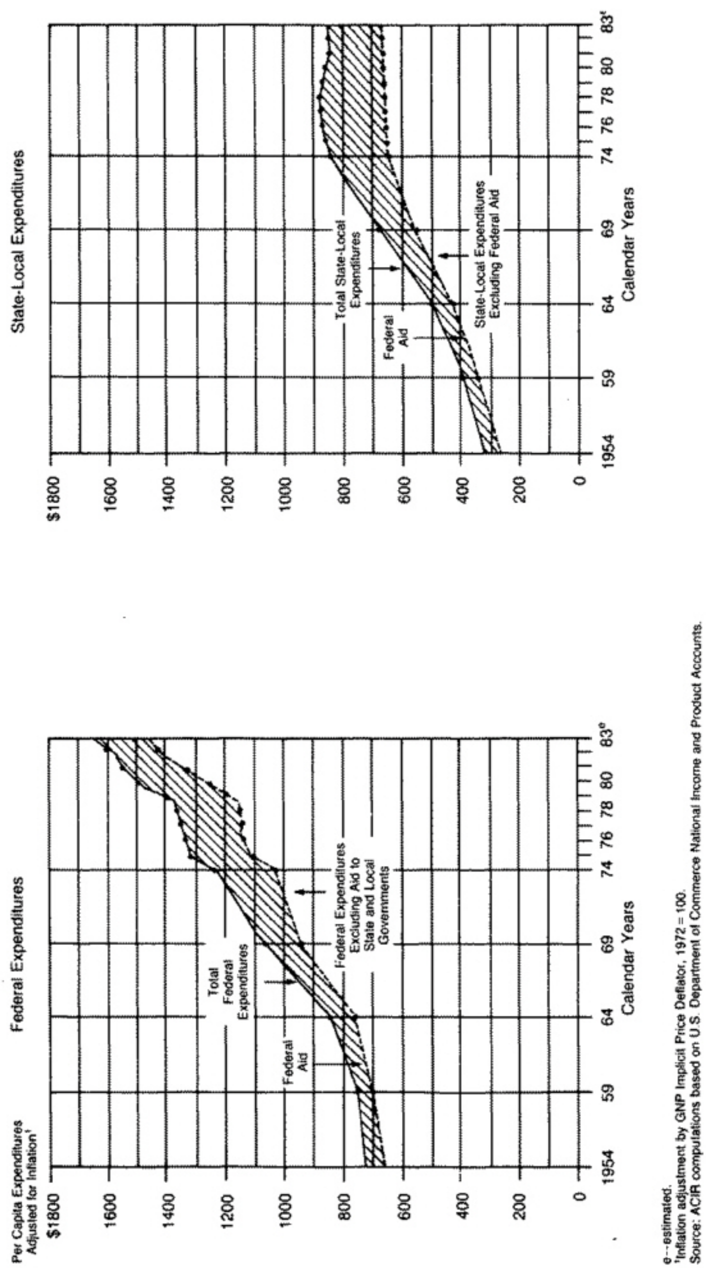


Figure 3-1
Since the tax revolt—federal and state-local spenders go their separate ways.

want to avoid Proposition 13-type restrictions, make sure that the increase in public spending does not exceed the growth of the private economy.

The fiscal braking effect of the tax revolt is clearly evident when state-local expenditure behavior is analyzed on a "before and after" basis. During the long, and for the most part affluent, period that started with the end of the Korean War and ended with Proposition 13, state and local spenders chalked up a hefty 4.5 percent average annual increase in per capita expenditures (when adjusted for inflation). Between 1978 and 1983, real expenditures actually decreased 1 percent. Although a few energy-rich states, e.g., Alaska and Wyoming, still kept their foot on the accelerator, most of the 50 state-local systems applied the expenditure brakes.

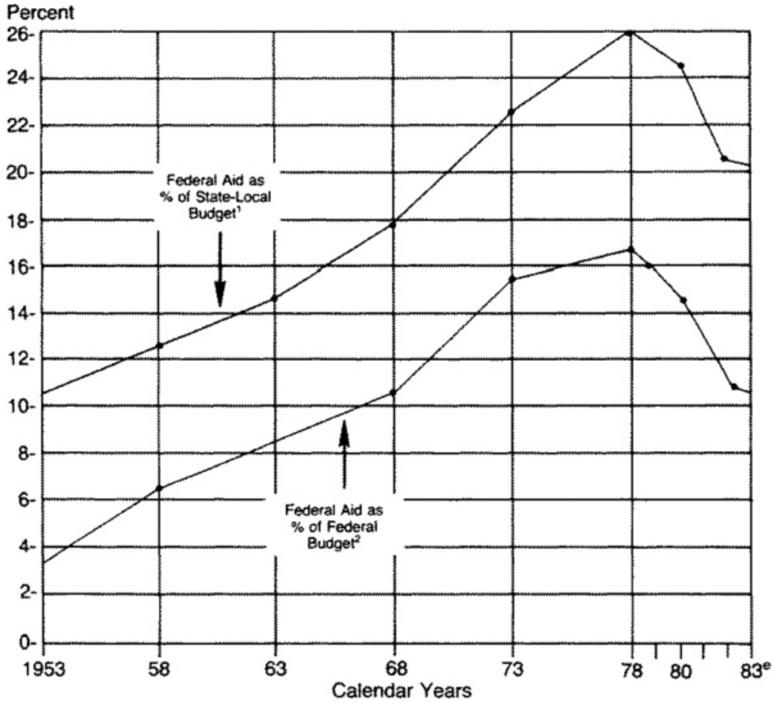
The same braking effect has been evident on the state-local employment front. In the pre-Proposition 13 era, states and localities averaged about a 3 percent annual increase in public employment, adjusted for population. After the tax revolt (1978–1983), state and local governments reversed that trend, annually decreasing employment by about 1 percent.

Reductions in Federal Aid Flows—1979–1984

Almost immediately after the taxpayers' revolt in California, state and local authorities received a second major jolt. Federal aid programs, the fastest growing items in state-local budgets prior to 1978, became a drag on federal revenues.

Federal aid to states and localities began to decline during the second half of the Carter administration due both to the end of the countercyclical aid programs and to the growing federal budget squeeze. This squeeze on federal aid was greatly intensified in 1981 when Congress approved the Reagan administration's plan to raise defense outlays sharply while simultaneously granting major tax cuts. Fearful that the resultant increase in the deficit would once again release strong inflationary forces, Congress had no alternative but to trim low-priority budget items in general and federal aid programs in particular (see Figure 3-2).

Real (adjusted for inflation) reductions in federal aid flows have not been offset by equivalent increases in state and local fiscal expenditures. In the past, the proliferation of federal categorical aid programs with "matching" provisions whetted state-local tastes for various public goods and services and accelerated state-local tax efforts. In the post-Proposition 13 era, federal aid cutbacks and capped block grants combined to have the opposite effect—the demand for



e--estimated.
[1]Federal aid as a percentage of state-local expenditures after transfers.
[2]Federal aid as a percentage of federal expenditures from own funds.

SOURCE: USACIR staff compilation based on Survey of Current Business.

Figure 3-2
The rise and decline of federal aid.

public sector goods was dampened and a powerful external pressure for higher state and local taxes was thereby removed. Although there was definitely some easing of the fiscal squeeze in fiscal years 1983 and 1984, in all likelihood the pressure to cut back on federal aid flows will become very strong in the wake of the November 1984 election.

Recession—No Bailout

Just when it appeared that states and localities had taken their worst lumps at the hands of the tax revolters and federal aid cutters, they received their third big jolt—the major recession that began in 1981. That recession will be seared into the memory of state and local officials because of its severity, its large revenue shortfalls, and its "fend for yourself" intergovernmental scenario.

The "fend for yourself" feature was especially noteworthy because it represented a sharp departure from earlier intergovernmental experience. Over the years, state and local authorities have become accustomed to having the federal cavalry—albeit somewhat belatedly—come charging over the hill to break the recessionary siege with aid from Washington. Many officials keenly remember the Economic Stimulus Program of 1977–1978, when the federal government authorized $16 billion in antirecession grants to states and local governments. This time, however, no federal aid was authorized and state and local policymakers were confronted only with far more painful alternatives—program cutbacks or sharp tax hikes, or both.

THE GREAT SPEEDUP IN FEDERAL EXPENDITURES

While state-local expenditures began their downward path after the passage of Proposition 13, federal expenditures turned sharply upward, rising in constant dollars from $1,146 per capita in 1978 to an estimated $1,475 in 1983, an increase of 29 percent. The increase in federal spending is attributable to the three "Ds": deficit financing, defense, and demographics (shorthand for the heightened demand for social security and Medicare benefits).

Deficit Financing

Just as the tax revolt sharply influenced the behavior of state and local officials, deficit financing goes a long way in explaining why federal spending continued to rise in the post-Proposition 13 era. Unlike state and local officials disciplined by balanced budget requirements, federal policymakers could finesse revenue shortfalls through the simple expedient of borrowing money. Thus, deficit financing enabled federal officials to avoid making the painful choice of cutting federal expenditures or raising taxes, or both.

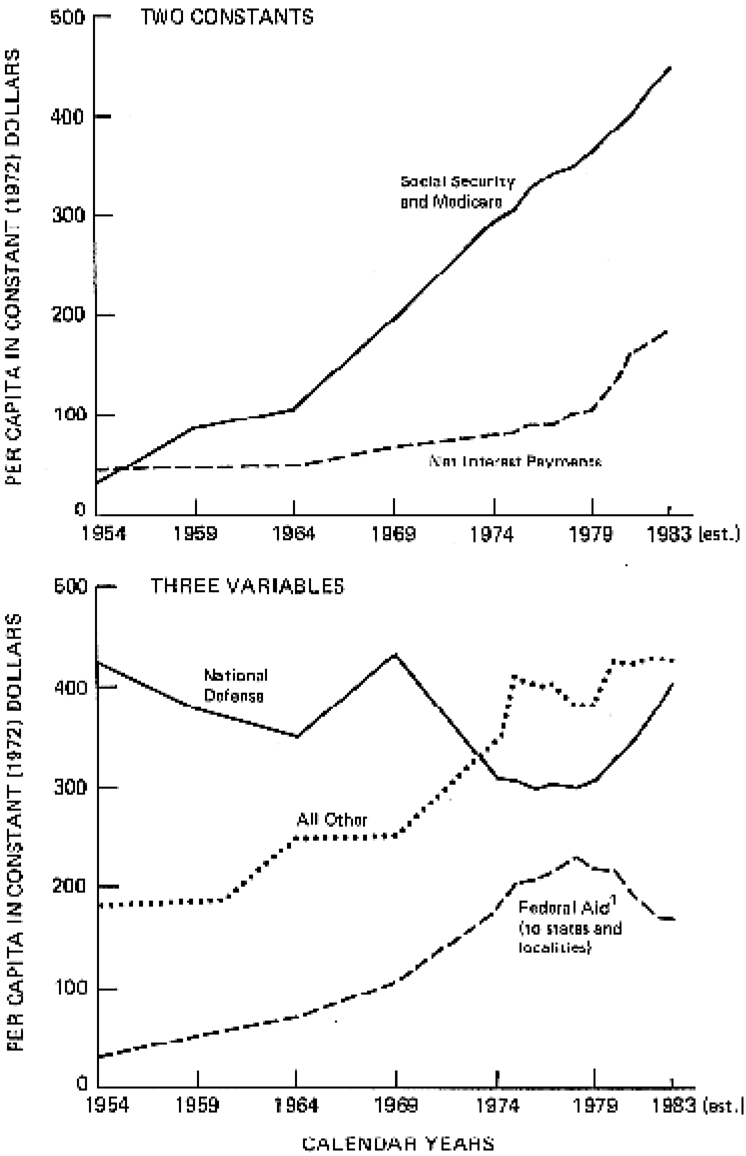
If political realities make it hard to balance the budget in good times, acceptance of the Keynesian countercyclical doctrine has made it downright un-American to balance the budget in bad times. Conservative political leaders strongly object to major tax increases during a recession on the grounds that it is bad economic policy. By the same token, liberal political leaders oppose major cuts in domestic programs as being both inhumane and withdrawing a necessary stimulus to economic recovery.

Although deficit financing has rendered yeoman service on the revenue side of the budget by papering over tax shortfalls, it has become a very expensive item on the expenditure side of the federal budget. As seen in Figure 3-3, after adjusting for inflation, the per capita outlay in constant dollars for interest payments on the public debt has shot up from $72 in 1969 to an estimated $190 for the 1983 calendar year. This significant increase in interest costs is due both to high interest rates and to the rapid growth in the size of the accumulated federal debt, which recently crossed the $1.5 trillion mark.

Defense and Demographics

The next two "Ds"—defense and demographics—stand out as driving forces accelerating federal spending at an unprecedented peacetime rate. Without strong braking action, federal expenditures will continue to rise, probably at an even faster rate than between 1978 and 1982.

Demographics are now working against the national government because it has assumed primary responsibility for income support and medical care of an aging popula



[1]Federal aid includes Aid to Families with Dependent Children and Medicaid payments.

Figure 3-3
The federal expenditure equation.
SOURCE: USACIR, staff computations.

tion. An ever-increasing number of federal beneficiaries (social security, civil service and military retirement, and Medicare recipients), expanded benefits, and indexed cost-of-living adjustments have combined to create a fiscal triple-whammy that is driving expenditures up sharply. These entitlement programs account for the bulk of the increase in domestic federal spending.

Although substantial, the increase in actual outlays to date for federal defense programs does not reflect the full cost of our national defense buildup because we are still in the R&D phase for some of the major and most expensive weapon systems. Thus, as the buildup continues, further increases in defense spending can be expected unless a weapons "stretch-out" policy is adopted.

A FISCAL PROGNOSIS

What will happen to federal and state-local spending over the next few years? I offer two forecasts: First, barring a major conflict or a serious recession, total federal spending should stop growing at a faster rate than the economy, due both to a slowdown in the defense buildup and to a freeze or a cutback in federal domestic spending. Second, there is likely to be very little in the way of real growth at the state-local level despite the concern about our "decaying" physical infrastructure and the need to strengthen our schools. Let us look at the state-local prospects first.

State-Local Spending Trends

To a casual observer, the many state tax increases adopted in the 1981–1983 period might suggest that the tax revolt is over. However, a closer look at the evidence suggests a different interpretation.

The Fiscal Crunch

First, a major state tax increase in the post-Proposition 13 era is more likely to signal fiscal desperation than that the big spenders are once again in office. A state government now exacts a major tax transfusion from its citizenry only when it is apparent that the state is suffering a severe fiscal hemorrhage—a large and unanticipated revenue shortfall due to economic recession. In many cases, these recent state tax increases are scheduled to self-destruct in six months to a year, clear evidence that the memory of the tax revolt and public opposition to government expansion still shape state legislative behavior.

Further evidence that the tax revolt is not dead is to be found in the fact that eight states will be considering changes in their existing tax and expenditure lids this year and five states will be considering new limits. (Table 3-1 presents a summary of recent proposals to limit state tax increases and expenditures.) The message is clear: Do not let public sector spending grow at a consistently faster rate than the economy (Benker and Kenyon, 1984).

Rainy Day Psychology

A second reason for believing that state and local policymakers are not about to embark on a new spending spree can be traced to the widespread state fear of another major recession and the belief that when it comes there will probably be no federal bailout. Although a rapidly rising economic tide is now carrying up most of the state revenue ships, we have yet to see a commensurate rise on the state-local expenditure front. Why? Because most states are still replenishing their badly depleted cash balances. Keenly aware of these fiscal realities, 21 states in the last few years have set up revenue stabilization ("rainy day") funds (USACIR, 1984:94–95).

Economic Development Concerns

Keen concern for economic development stands out as the third reason for believing that most state tax policymakers will pursue fairly conservative fiscal policies over the next several years. In this case, economic development is one of those nice fuzzy terms that can be used to gloss over bitter interstate competition for investors' dollars. In fact, not in the last 30 years have state leaders evinced greater interest than they do now in attracting and holding business investment.

The last two major recessions and the rise of the

TABLE 3-1 Capsule Summary of Recent State Tax and Expenditure Limitation (TEL) Proposals (as of May 18, 1984)

State	Legislative or Citizen Initiated	New TEL or Revision of TEL	Constitutional or Statutory	Status of TEL Proposal	Purpose of Limit
Alaska	Legislative	Revision	S	Pending in legislature	Select inflation and population indices to be used in limit.
Arizona	Legislative	Revision	C	Passed by legislature; will be on Nov. ballot	Change base of expenditure limit from 7 percent to 6.5 percent of personal income and establish budget emergency fund.
California	Citizen--"Save Prop 13"	Revision	C	Qualified for ballot	Restrict state and local fee increases and provide for tax rebate of $1.3 billion due to property tax rollback to 1975, rather than 1978, levels.
	Citizen--Balanced Federal Budget	New	S	Qualified for ballot	Petition the legislature to pass federal balanced budget requirement or face suspension of legislative salaries.
Florida	Citizen--Amendment One	New	C	State supreme court removed by ballot	Limit growth in state and local revenue to two-thirds the annual change in Consumer Price Index, not to exceed 5 percent.

Hawaii	Legislative	Reauthorization	S	Passed by legislature	Reauthorize expenditure limitation annual growth factor.
	Legislative	Revision	C	Passed by legislature; will be on Nov. ballot	Repeal budget surplus provision, which automatically rebates "excess" tax revenues.
Louisiana	Legislative	Revision	C	Pending in legislature	Replace revenue limit with an expenditure limit based on growth in personal income.
Michigan	Citizen--"Voters" Choice"	New	C	Pending (proponents claim enough signatures to qualify)	Void all state and local tax or fee increases enacted since 1982 and require all tax increases to be approved by popular vote. (Fee increases are also restricted.)
Nebraska	Citizen--Petition 1	New	C	Pending	Enact an expenditure limitation based on per capita personal income, capped at 5 percent annual increase.
	Citizen--Petition 2	New	C	Pending	Limit property taxes to 1.5 percent of actual value.
Nevada	Citizen	New	C	Pending	Limit growth in property tax revenues to 5 percent annually and require a super majority governing body vote <u>and</u> a popular vote to pass

State	Legislative or Citizen Initiated	New TEL or Revision of TEL	Constitutional or Statutory	Status of TEL Proposal	Purpose of Limit
					state and local tax increases. (Fees are also restricted.)
New Jersey	Legislative	Reauthorization	S	Pending in legislature	Reauthorize previous expenditure limit, perhaps with some technical changes.
Ohio	Citizen	New	C	Both measures defeated by popular vote November 1983	Repeal all state tax increases since January 1983.
	Citizen	New	C		Require a super-majority legislative vote to increase taxes.
Oregon	Citizen	New	C	Pending (proponents claim enough signatures to qualify)	Limit property taxes to 1.5 percent of 1981 assessed value and require a popular vote to increase state and local taxes.
	Citizen	New	C	Pending	Institute a 5 percent sales tax and change existing expenditure limit from statutory to constitutional.
Rhode Island	Legislative	Revision	S	Passed	Raised allowable annual increase of governor's

					budget request from 5.5 percent to 6 percent.
South Carolina	Legislative	Revision	C	Passed House; pending in Senate	Switch from statutory expenditure limit to constitutional, which would include a limit on the number of state employees.
Virginia	Legislative	New	C	Bill died in 1984 session	Institute an expenditure limitation based on growth of state economy.
Washington	Citizen	New	S	Pending (endorsed by governor)	Reduce most major state tax rates and replace revenue limit with an expenditure limit based on inflation and population growth.

NOTE: A federal balanced budget initiative, similar to California's initiative, is beginning to circulate in Montana, Ohio, and Washington.

SOURCE: U.S. Advisory Commission on Intergovernmental Relations, 1984 fiscal survey of legislative and executive budget officers.

footloose multinational and multistate firms have caused state leaders to become acutely sensitive to the need to create "a favorable business climate." Although this concern for economic development has been used to justify larger appropriations for physical infrastructure and, in some cases, education, more often than not it has prompted state officials to pursue conservative tax policies. For example, we recently witnessed the astounding spectacle in Indiana where all the top state officials publicly pledged to repeal the worldwide unitary method of tax accounting in return for a promise from a Japanese firm to build a $15 million plant in Terre Haute.

Federal Spending Prospects

Any discussion of where we may be headed on the federal spending front must first concentrate on federal domestic programs. These programs have constituted the driving growth force over the last three decades (see Table 3-2).

TABLE 3-2 Federal Expenditures (percentage of GNP)

Calendar Year	Defense	Domestic	Interest
1954	11.2%	6.5%	1.3%
1959	9.3	8.0	1.3
1964	7.7	9.6	1.3
1969	8.1	10.5	1.3
1974	5.4	14.1	1.4
1979	4.6	14.7	1.8
1983 est.	6.1	16.1	2.9

SOURCE: U.S. Advisory Commission on Intergovernmental Relations, staff computations.

There are two reasons for believing that federal domestic spending may actually shrink in real terms over the next few years: the disappearance of four boosters that have constantly increased domestic expenditures during the last 30 years, and the pressures created by the federal deficit.

The Disappearance of Four Expenditure Boosters

During the past three decades, federal policymakers could rely on four easy-money options to expand domestic programs at virtually no political risk. Now, one by one, those expenditure boosters have been lost.

<u>Income tax booster</u> Until recently federal officials could sit back and allow inflation and economic growth to push taxpayers automatically into higher tax brackets. As a result, millions of middle-class taxpayers were pushed up into tax brackets that until recently had been the province of only the truly wealthy.

This bracket creep has contributed greatly to the growing public discontent with the federal income tax. It led to the decision of the Congress to index the income tax starting in 1985, an action that will take the inflationary wind out of the federal income tax sails.

<u>Domestic Transfer Booster</u> After the end of the Korean War, federal officials were able to shift vast sums from defense to domestic programs. This great change in expenditure priorities at no political risk provided the federal government with a fiscal advantage possessed by no state or locality.

Since the Soviet invasion of Afghanistan in 1978, it has been necessary to reverse this process. As a result, federal policymakers are now forced to pull resources away from domestic programs to help finance the Pentagon's growing requirements.

<u>Social Security Booster</u> With virtually no political risk, Congress repeatedly raised social security tax rates during the 1960s and 1970s to finance broadened program coverage. These repeated social security tax hikes met with little public opposition because most of the public viewed them as higher insurance premiums needed to pay for better protection.

Easy votes in the Congress to raise social security tax rates are now a thing of the past. In fact, the 1983 social security tax hike was justified on the grounds that it was needed to "save" the system, not to expand it. This same 1983 legislation actually trimmed some of the social security benefits, an action that would have been considered unthinkable a few years earlier.

Deficit Finance Booster Public acceptance of deficit financing provided federal officials with their fourth expenditure booster: They could cover revenue short-falls by borrowing, thereby avoiding the political pain associated with tax hikes or expenditure cutbacks. In 23 of the last 24 years, the national government spent more than it collected, and for those 23 years the deficits totaled about $1.0 trillion. As illustrated in Figure 3–4, the deficit problem has been growing progressively worse over the last two decades.

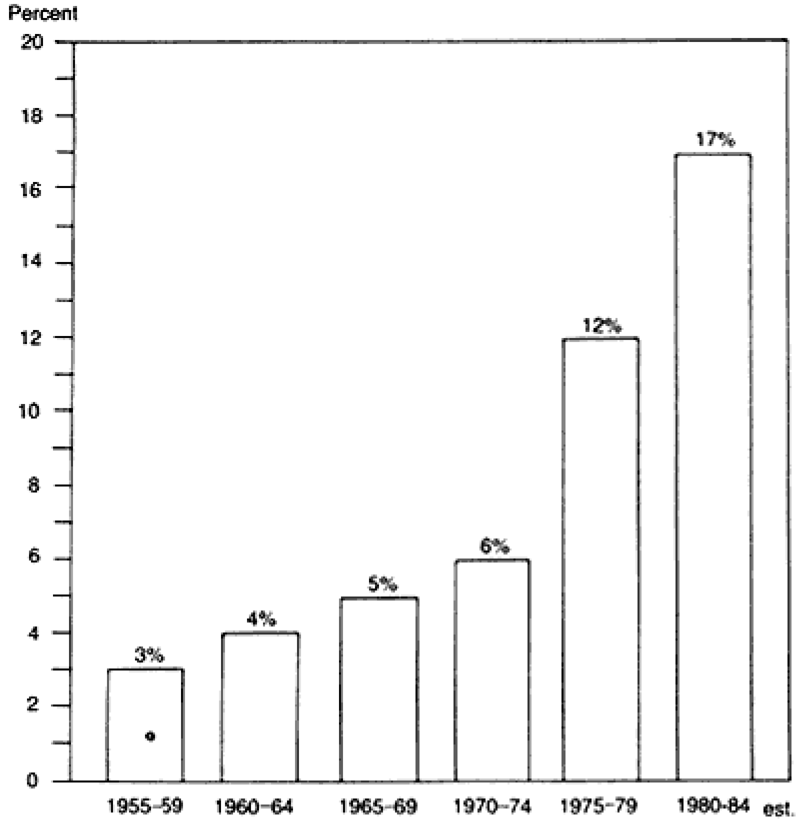
Quantitative differences can have qualitative effects. The enormous size of the federal deficit has focused public attention on the federal government's addiction to deficit financing. As a result, federal policymakers are about to lose their fourth and last expenditure booster.

The Deficit Crisis

The second reason for beleiving that most federal domestic expenditures will soon be placed on the fiscal austerity chopping block is the imperative need to put a halt to the constantly increasing federal deficit. The enormous size of the federal deficit has now become the nation's number one economic worry. The size of the federal deficit problem can be illustrated by a stunning intergovernmental comparison: The federal budget deficit for fiscal year 1983 was $24 billion greater than the total tax collections of all 50 state governments.

THE GREAT COMPROMISE?

It is becoming increasingly clear that the growing political demand to cut federal deficits will soon force Washington into the Great Deficit Reduction Compromise. As their price for agreeing to a deficit reduction plan, the liberals will probably succeed in slowing the growth in defense expenditures and in enacting a major federal tax increase. In return for their support for deficit reduction, the conservatives will demand and probably get two far-reaching concessions:



SOURCE: U.S. Office of Management and Budget, The Federal Budget for 1984, Table 24, and USACIR staff computations.

Figure 3-4
Federal budget deficit as a percent of total federal expenditures.

1. an across-the-board expenditure freeze or cut for most domestic programs, and
2. the enactment of a balanced budget amendment with some type of expenditure or tax lid attached.

In pushing their demand for a balanced budget, the conservatives have a powerful weapon—the state shotgun behind the congressional door. Thirty-two of the required 34 states have made application to the Congress for a limited constitutional convention to draft a bal anced federal budget amendment. Congressional conservatives can also count on a populist, grassroots fiscal discipline movement (USACIR, 1984:19–20) to help carry them over the top.

> There is a new urgency to this issue because an initiative in California, just recently approved for the November ballot, would petition the California Assembly to call for a constitutional convention on the federal balanced budget issue or face suspension of their legislative salaries. So far, there has been no announced opposition to this ballot measure. Similar initiatives are circulating in Montana, Ohio, and Washington. . . . it was seven years ago that actions in California marked the beginning of a new era of fiscal discipline at the state level; once again California voters may spearhead a drive for fiscal discipline—his time at the federal level.*

DE FACTO NEW FEDERALISM

The great changes that have swept across the United States since 1978 have produced a "de facto" New Federalism. This new order is not the nice, neat, and orderly "sorting out" process for which political scientists and reformers yearn. Nor has it evolved along the tax turnback and program swap lines advocated by the Reagan administration. Rather, New Federalism, which actually started in the latter half of the Carter administration, is a slow federal retreat along the entire federal aid front—action dictated both by growing fiscal stringency and conservative political ideology. Nevertheless, de facto New Federalism clearly represents a "sorting out" of sorts: Relatively less federal financing is going into state and local programs and relatively more federal financing is going into strictly national programs (defense, social security, and Medicare) and into paying the interest on a $1.4 trillion U.S. Debt.

*After the article was written, the California Supreme Court removed this initiative from the ballot.

The new, fiscally austere federalism can best be understood by comparing it to affluent "old federalism," which began at the end of the Korean War and ended in 1978, the year of the Soviet invasion of Afghanistan and the California taxpayers' revolt:

- Old federalism was characterized by steadily increasing state-local dependence on federal aid as the nation increasingly looked to Washington to set the domestic agenda. New federalism is marked by steadily decreasing state-local reliance on federal aid dollars as the country increasingly looks first to the localities and then to the states to handle domestic issues.
- Old federalism was intrusive in character—a steadily growing number of federal aid "strings" and conditions were designed to alter state and local budgetary priorities and to race state and local fiscal engines. New federalism is becoming increasingly extrusive in character—the federal government is pulling aid funds and tax resources from state and local governments to strengthen the financing of its own national programs.
- Old federalism represented a continuous but unplanned advance of the national government into areas that had heretofore been the exclusive province of state and local governments. New federalism represents a continuous but unplanned retreat from federal positions staked out during the Great Society era.
- Old federalism flourished in a political environment that resolved the political and fiscal doubts in favor of social equity concerns, domestic public sector growth, and defense contraction. De facto New Federalism operates in a political climate that resolves the doubts in favor of economic development, defense expansion, and domestic public sector containment.

Phase II of de facto New Federalism will most likely emerge in the wake of the November 1984 election as growing public concern about massive budget deficits will force federal policymakers to make far more painful choices than they have had to make thus far. Even now, two trends are clear: First, an increasing share of the federal budget will continue to be earmarked for programs that are the sole responsibility of the national government—defense, social security, Medicare, and interest on the debt. Second, state and local officials will continue to operate in a bracing "do it yourself" fiscal environment for the foreseeable future.

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4

National-Urban Relations in Foreign Federal Systems: Lessons for the United States

Harold L. Wolman

INTRODUCTION

This paper examines the nature of the relationship between national governments and large urban governments in countries with political structures relatively similar to that of the United States. The United States has always viewed itself as a unique country with distinct problems and solutions. Yet the economic transformation the advanced Western nations appear to be undergoing has created similar problems for all of them, not the least in terms of its impact on their urban areas. Thus, the Organisation for Economic Co-operation and Development (OECD) in its report, Managing Urban Change, cited a list of problems affecting urban areas in the more advanced OECD countries that would seem quite familiar to most Americans. The OECD (1983a:50) made the following observation:

> Many cities of the OECD countries are exhibiting social and economic problems of concern to policymakers which, when concentrated in certain areas, are indicative of urban decline. Symptoms are evident in the daily experience of their inhabitants and in the newspaper headlines and evening television programs:

- high levels of unemployment, low paid or irregular employment, closure of factories, shops and offices;
- deteriorating housing conditions, the physical decay of the built environment and infrastructure, vacant land and abandoned buildings;

- severe social problems including low educational achievement, isolated elderly people, single parent families, poverty and homelessness;
- concentrations of ethnic minorities, often encountering discrimination in finding homes and work;
- crime and vandalism, the occasional outbreak of riots, and a general breakdown of law and order.

The economic forces underlying these problems appear to be nearly universal (see Table 4-1).

TABLE 4-1 National Employment by Industrial Sector (percentage)

	Manufacturing		Services	
	1973	1982	1973	1982
Australia	23.9%	18.8%	49.5%	56.1%
Austria	35.7	31.0	43.5	49.1
Belgium	31.8	24.1		
Canada	22.4	18.2	43.8	49.2
France	27.9[a]	24.7[a]	45.0	50.5
Japan	27.4	24.5	42.7	49.0
Netherlands	25.0[a]	20.5[a]	53.3	60.0
New Zealand	25.0	24.0[c]	44.3	47.5[c]
Norway	23.5	19.7	44.8	52.9
Sweden	27.4	22.4	49.5	57.0
Switzerland	35.0	32.2[b]	42.4	47.3[b]
United Kingdom	32.2	25.4	48.0	56.3
United States	24.8	20.4	43.8	47.6
West Germany	36.4	35.0[b]	39.1	43.2[b]

NOTE: "Manufacturing" excludes construction. "Services" include trade, restaurants, and hotels; finance, insurance, and real estate; and community social and personal services.

[a]1975 data.

[b]1980 data.

[c]1981 data.

SOURCE: International Labor Organization (1983). Yearbook of Labor Statistics.

Western economies are transforming from specialization in routine manufacturing processes to more complex manufacturing and advanced services economies.

In all of the more advanced OECD countries, manufacturing employment is declining as a percentage of total employment and service employment is increasing; this process is occurring more rapidly in the major urban areas than in the nation as a whole. Manufacturing jobs no longer are sufficient to employ the lower skilled labor force that tends to be concentrated disproportionately in central city areas. The OECD (1983a:62) concludes that "the consequences for the remaining inner city residents may be prolonged unemployment or irregular and low paid employment."

The similarity of problems suggests that there may be something to be learned from examining the relationship of national government to urban government and the problems of urban areas in these countries. However, given the distinctive structure of the American political system and the inevitable difficulties of interpreting the meaning of experience grounded in a specific foreign context, it is desirable to limit the comparison to those systems most similar to the U.S. system. Since the United States is a federal political system, the temptation to simply compare national-urban relations in other federal systems is strong.

Before acceding to this temptation, however, some further consideration is in order. Although scholars have disagreed quite substantially on the proper definition of federalism, nearly every definition assumes the existence of a regional level of government interposed between national and local governments, with the regional government having at least some spheres of activity in which it is able to make final decisions (i.e., it is not merely an administrative unit of central government). Thus, Riker (1975:101) defines federalism as:

> A political organization in which the activities of government are divided between regional governments and a central government in such a way that each kind of government has some activities on which it makes final decisions.

The United States, Australia, Canada, Germany, Austria, and Switzerland all meet this definition, for all have regional (state, provincial, etc.) bodies of government that have power to make final decisions in some spheres. Accordingly, all of those countries are included in this comparison. But our concern is with national-urban relations. Does the nonexistence of an intermediate-level regional government in many countries inevitably render the experience of those nations irrelevant to the United States?

In the United Kingdom, a country in which the substance of urban problems is close to our own, the central government conducts relations with local governments, which have the ability to make final decisions about important issues of urban policy. Central government relations with local authorities are direct, because an intermediate government layer does not exist. However, in the United States, where an intermediate layer (states) does exist, the federal government also conducts some relations directly with city governments.

As defined by Richard Bird (1980:12):

> Systems in which there is some degree of autonomous decision making at different levels . . . are considered to be federal systems. The essence of federalism in this perspective is thus not the extent to which the rights of subnational governments are, in some sense, constitutionally entrenched. Rather, it is that local or state governments, are, in some relevant fashion, effective decision making bodies.

Bird's argument is persuasive, at least with respect to the purpose of this study, which is to examine national-urban relationships. Accordingly, while accepting as federal the six major systems with intermediate levels of government cited above, I have also included the United Kingdom as a relevant nation for this analysis.

Choosing to focus primarily on federal systems, even given this expanded definition, does have some consequences. First, the urban problems identified earlier are not as dramatic or as advanced in some of the countries, in particular, Canada and Australia, as they are in others, in particular the Federal Republic of Germany, the United Kingdom, and the United States* (see Table 4-2). Other countries with urban problems similar

*Thus, large Canadian urban areas actually gained employment in the manufacturing sector between 1971 and 1980, while Australian urban areas remained relatively stable. However, losses in urban manufacturing employment were substantial in Germany, the United Kingdom, and Switzerland (see Table 4-2).

to those of the United States, i.e., the Netherlands, Belgium, and Sweden, are not included. In addition, Austria has few large cities other than Vienna, which is both a city and a state, and Australia's local governments perform few important functions. However, these variations in country circumstances and structure can be viewed as strengths of the analyses rather than as weaknesses, for they provide an additional range of experience and practice.

OVERVIEW OF POLITICAL SYSTEMS

With the exception of the United Kingdom, all of the countries under consideration are federal in terms of Riker's definition, in that they they have regional levels of government that possess policymaking rather than solely administrative responsibilities.* As with the U.S. Constitution, the Australian, Austrian, Swiss, and German constitutions enumerate the powers of the federal government and leave residual powers to the states. The Canadian constitution, on the other hand, leaves residual powers to the federal government. The United Kingdom is, by contrast, a unitary state in which all powers reside with the central government.

The German and Austrian federal systems differ markedly from the others in that they divide governing functions as well as powers among levels of government. Thus, as Bernd Reissert (1980a:50) explains with respect to the German system:

> In general, responsibilities are divided not by policy areas but by functions in the policymaking process. On the one hand, the bulk of legislative powers, except in the field of education, lies with the federation, and the federation is

*States in Australia, provinces in Canada, lands in Austria and the Federal Republic of Germany, and Cantons in Switzerland. These regional levels of government are referred to as states throughout the discussion.

TABLE 4-2 Urban Employment and Population Change

	Unit	Period	Percent Change, Total Employment	Percent Change, Manufacturing Employment	Percent Change, Population
Australia					
Brisbane	M	1971-76	14.1%	1.7%	27.5%
Austria					
Vienna	M	1971-81	NA	NA	- 3.2
Linz	M	1971-81	NA	NA	10.7
Canada					
Montreal	M	1971-80	3.9	6.9	21.4
Toronto	M	1971-80	15.7	22.3	6.7
Vancouver	M	1971-80	0.1	1.7	7.8
Switzerland					
Zurich	M	1970-75	5.2	-15.3	-2.8
	C	1970-75	3.4	-17.2	-13.1
Basel	M	1970-75	8.9	1.0	- 5.1
	C	1970-75	6.5	- 0.8	-15.4
Geneva	M	1970-75	6.4	- 5.4	2.6
	C	1970-75	2.8	-13.9	-11.3
United Kingdom					
London	M	1975-77	- 3.5	- 1.5	-10.1
	C	1968-76	-24.8	NA	-17.7
Manchester	M	1975-77	- 6.8	- 4.2	- 4.9
	C		NA	NA	-17.4
Liverpool	M	1975-77	- 4.6	- 6.8	- 8.7
	C	1972-80	-19.4	NA	-16.4)
United States					
Baltimore	M	1970-80	18.3	-18.0	5.0
	C		NA	NA	-13.1)
Chicago	M	1970-80	9.6	-12.4	1.8
	C		NA	NA	-10.8
Detroit	M	1972-80	6.7	-12.1	- 1.8
	C		NA	NA	-20.5
West Germany					
Munich	M	1970-78	3.0	- 8.8	11.6
	C	1970-78	NA	NA	0.2
Hamburg	M	1970-78	- 4.6	-16.6	0.8
	C	1970-78	NA	NA	- 7.2
Duisberg	M	1970-78	- 8.9	- 8.1	- 8.1
	C	1970-78	NA	NA	- 9.6

NOTE: Figures on percentage change in population are for 1970-1980 for Switzerland; for 1971-1980, for United Kingdom; and for 1970-1980, for United States.

C = Central city.
M = Metropolitan area.
NA = Not available.

SOURCE: Organisation for Economic Co-operation and Development.

> also responsible for most tax legislation and for the allocation of taxes among different tiers of government. State governments, however, have a voice in the framing of federal legislation via the Bundesrat (upper house of parliament), where all federal laws affecting the interests of the states require the approval of a majority of state government votes. On the other hand, policy implementation and spending are the domain of the states and local government because the federation does not have an administration of its own to administer federal laws. Under the constitution only foreign policy, the federal finances, the federal railways, the federal postal service, the federal waterways, and the federal armed forces are subject to direct federal administration. In all other policy areas, there are no federal field agencies and all nonlegislative functions are carried out by the states and local government employing their own financial resources, with the federal government having no further say in the matter.

In all but one of the countries being examined, local governments, as in the United States, are the creatures of the state (intermediate) level of government; the one exception is, again, the United Kingdom, where local governments are creatures of the central government. However, in Germany and Austria local governments have constitutional recognition—that is, they are provided with specific powers and standing by virtue of the federal constitution. In both countries local authorities are given the power to deal with all matters of a purely local nature not circumscribed by federal or state law. By contrast, in Australia, local governments may do only what they are expressly permitted to do by state authority, the same situation that exists in the United Kingdom with respect to central-local relations.

Local governmental systems vary considerably among the countries. Australia and Canada look much like the United States in terms of their mixture of overlapping general-purpose authorities and special districts, while Germany, Austria, and Switzerland have more orderly systems of local government. However, both Austria and Germany also have city-states, a structural arrangement that has, from time to time, been suggested for large

U.S. cities, but never implemented. Vienna, the only large urban area in Austria, functions as both a city and a state, and, in Germany, Hamburg, Bremen, and Berlin are city-states. These cities are thus treated constitutionally and legislatively as states as well as cities, and they perform state functions and receive state tax-sharing and grant-equalization payments not available to other cities. In both countries the city-state arrangement appears to result from a continuation of historic arrangements rather than from any well-thoughtout, recent determination to treat these cities differently.

Local governments play an important role in service delivery in all of these countries with the exception of Australia, where many of what are normally considered local functions are performed by the state. The weak role of Australian localities is reflected in Table 4-3, which sets forth local government expenditures as a percentage of total public sector general government expenditure. Australian localities accounted for only 6.8 percent of total general government expenditure, while localities in the other countries accounted for 20 percent or more.

TABLE 4-3 Local Government Expenditure as a Percentage of General Government Expenditure (1979)

Country	Percentage
Australia	6.8%
Austria	20.0
Canada	22.4
Switzerland	23.6
United Kingdom	29.2
United States	25.1
West Germany	18.0

SOURCE: Organisation for Economic Co-operation and Development (1983a); plus data from the United States and United Kingdom derived by author.

NATIONAL-URBAN RELATIONS

With the exception of the United Kingdom, direct national-local relations of the sort that are prevalent in the United States are rare; the federal government interacts with urban governments primarily through state governments. The constitutional division of powers is between federal and state governments (although, as noted, in Austria and Germany local authorities are constitutionally given responsibility for "local" matters).

Relationships through the Grant System

In Australia, Austria, and Germany some federal taxes are shared automatically with local as well as state governments. Tax-sharing relationships involve guaranteed transfers rather than sustained national-local relationships; there is no national effort to influence local government policy or activity.

The provision of general grants also represents, in formal terms, a financial transfer with no attempt to affect local government activity (except spending levels). Direct general grants from national to local governments, such as the U.S. revenue sharing program, occur only in the United Kingdom. However, in Germany, Australia, and Austria, the federal government requires that state governments distribute some of their tax revenue in the form of grants to local authorities. In the United Kingdom the Thatcher government has structured its general grant system to include incentives to reduce local authority spending from local sources.

Specific or conditional grants represent a more activist national government role. In Australia, Canada, Austria, and the United Kingdom, some special-purpose grants are made directly from the national government to local authorities, although not nearly to the extent as in the United States. In Germany and Switzerland all federal grants must be made to the state rather than local governments.

Mandates

In the United Kingdom, central government may di rectly legislate with respect to the nature and level of services that local government provides. In essence, the same situation exists in Germany and Austria, where local autonomy is guaranteed, except where federal interest is concerned. In the United States, federal direction of local activity occurs primarily through the use of conditions attached to the "voluntary" receipt of federal grants. This method is not utilized substantially in any of the countries examined, although the attachment of conditions to state grants is not uncommon.

Relationship through Negotiations

Local government associations play an important and quasi-formal role in consultations and, in some cases, negotiations with the national governments in Germany, Austria, Switzerland, and the United Kingdom, but much less so in Australia and Canada. In effect, these more formal consultative arrangements with local government associations substitute for the more direct federal relationships with individual local governments in the United States. In the United States, the role of local government associations with respect to the federal government is less formal and more that of lobbying than of consultation and negotiation. However, in both Austria and the United Kingdom local government associations are involved in formal negotiations with the national government over the distribution of tax sharing and general grants, respectively. In Germany, according to the OECD (1983b:18):

> The Deutsche Stadtetag (Associations of Large Towns) plays a definite role in work leading to government and federal parliament decisions liable to affect cities. Association representatives must be consulted on all federal proposals in regard to town planning, land use, local finance, and regional and local transport, and the Association representatives sit on several ministerial committees with Bund and Lander ministers, e.g. the finanzplanungsrat (Financial Planning Committee).

In both Canada and Australia, local government associations play a minor role with respect to the federal government, but a much more important and formal role, particularly in Canada, in grant negotiations with the state government.

NATIONAL RESPONSIBILITY FOR URBAN PROBLEMS

In none of the countries in this study is there an explicit national urban policy nor periodic national urban policy reports, such as in the United States. Nor, except in the United Kingdom, has the national government accepted an important role in coping with the problems brought about by changes in the structure of the urban economy. To a large extent this is due to the long-standing concern in these countries with the lagging economies of peripheral regions, to which a variety of regional development policies have traditionally been addressed. Problems in large urban economies are relatively recent and, in many of these countries, only beginning to be perceived.

All of the national governments, however, are involved to some extent with urban problems through programs addressed to specific urban concerns. Typically, these programs are in housing, urban renewal, infrastructure, and local transport. In most cases these national programs are provided indirectly to local governments through state governments. In general, however, with the exception of the United Kingdom, national government concern with urban areas has not been nearly so strong as in the United States.

In the United Kingdom, "inner cities" policy is aimed explicitly at the regeneration of the inner areas of cities. The "urban program" provides 75 percent matching funds to local authorities for economic development and social services in inner city areas. The central government also provides cities with housing and transport grants.

The German federal government provides urban renewal, transportation (both streets and public transport), and hospital construction aid for local governments and sets the framework within which the funds may be used. However, the funds cannot be provided directly to local governments. Instead, they are provided to the state governments, which determine the distribution of funds to local authorities and the specific purposes for which they can be used. State implementation of the program must be broadly consistent with the framework of the federal law.

Canada and Australia both provide small amounts of federal aid for local governments. In Canada almost all aid is provided through the provinces (housing, urban renewal, and infrastructure), and in Australia aid is provided partially through the state government and partially directly. The direct grants for Australian local governments are, almost exclusively, for social services, while the indirect grants include aid for infrastructure and transportation (USACIR, 1981b:Ch.5).

The institutional mechanisms by which the national interest in urban areas is manifested vary considerably. Most of the countries have no national equivalent of the U.S. Department of Housing and Urban Development that has at least formal overall responsibility for urban affairs. Instead, there are likely to be more narrowly focused ministries of housing and town planning or urban renewal. Again the United Kingdom is the exception. The Department of the Environment has broad responsibility for carrying out "inner cities" policy, including efforts to coordinate the urban activities of other departments and to persuade those departments to "bend" their programs to the advantage of urban areas.

The coordination of national government policies affecting urban areas has been a problem recognized to some extent by nearly all of the countries, including the United States and the United Kingdom, the two countries in which responsibility for urban problems is most firmly lodged within a single national department. In both Canada and Australia there was recognition during the 1970s that the broad range of federal government policies have important impacts on urban areas and that those impacts are frequently haphazard and unanticipated. In order to address this problem, both countries established national ministries designed to coordinate federal policy and, in Australia, to initiate a series of federal programs for urban areas. In both countries, state opposition to an expanded federal role in urban affairs caused the ministers to be discharged (OECD, 1981a:13).

The Canadian case, as described by the OECD (1983b: 10–11) is instructive:

> In 1971 Canada established the Ministry of State for Urban Affairs. Its basic function was to

> coordinate federal policies affecting urban areas both within the federal government and with the 10 provincial governments. However, the Ministry had no direct functional responsibility—it coordinated the programs implemented by others rather than implementing programs of its own. However, compared with other ministries it was weakened by this lack of operational competence and, in addition, the provincial governments feared that it might come between them and the local authorities. Difficulty in accomplishing its task and increasing political pressure from those who considered it unnecessary or intrusive, led to the Ministry's abolition in 1979.

Many countries have also established vertical mechanisms to coordinate national efforts to address urban problems. These mechanisms exist alongside, or in addition to, the normal processes of intergovernmental relations, which largely do not permit direct national-local relations. Such efforts appear to be most advanced in the United Kingdom, where "Inner City Partnerships" have been established as a vehicle for providing economic development assistance to the largest local authorities. Each partnership is headed by a committee chaired by a central government minister and comprises representatives of the local authority and central government departments. The committee, in consultation with business interests and community groups, prepares an "inner areas program," which sets out an agreed strategy and program of action for three years ahead.

In addition, the central government has set up Urban Development Corporations in the London docklands and Merseyside (Liverpool) as a means of bringing about urban regeneration in those areas. Unlike the partnership authorities, the Urban Development Corporations are <u>superimposed</u> on the existing local authorities in the two areas and provided with much broader development powers than the local authorities have. (The corporations are the equivalent of urban renewal agencies in the United States but they have greater authority and are under less local control.) They are provided with central government funding and are expected to engage in large joint ventures with the private sector.

Many countries make extensive use of ad hoc quasi-formal or formal intergovernmental agreements, usually between federal and state governments, as a means of coordinating and sometimes implementing policies toward urban areas. In Canada (OECD, 1983b:98), for example:

> The coordination of government efforts to provide an economic development stimulus in lagging areas has been primarily accomplished through the mechanism of the federal-provincial conferences and subsequent intergovernmental agreements, which, in effect, provide both levels of government with a vehicle for assessing some degree of joint financial responsibility for the attainment of objectives in their common interest, or spheres of responsibility.

In Germany, the economic problems of the Ruhr region—a large, heavily urbanized industrial area—have attracted federal government concern not evidenced toward other urban industrial regions. As a consequence the federal government and the state government of North Rhine-Westphalia jointly developed and embarked upon a "program of action for the Ruhr" aimed at "increasing the adaptability of the area and enhancing the attractiveness of this the largest conurbation in Europe" (Wolman, 1982:109).

In Austria, formal treaties are negotiated between federal and state government and among state governments for a variety of purposes. The city-state of Vienna, for example, has entered into a treaty with the surrounding state setting up a body to prepare and coordinate (regional) relevant activities.

While most of these governments have not been directly concerned with urban policy, they have been quite concerned with, and take a direct responsibility for, regional policy. In general, regional policy is directed toward disparities in economic growth and development among regions. Most Western governments other than the United States operate a variety of place-specific incentives, usually in the form of capital subsidies to business firms that agree to locate or expand in eligible areas. Traditionally, regional policies have been aimed at peripheral and mostly rural or extractive regions, and large urban areas have been ineligible for regional incentives. However, as a consequence of concern over the slow economic growth of the Montreal area, the Canadian federal Department of Re gional Economic Expansion designated Montreal a special incentive area in 1977, making firms in the area eligible for subsidies of up to 25 percent of the cost of new capital investment. In Germany, where regional policy is carried out through a joint federal-state committee, recent changes in eligibility criteria have made many heavily urbanized regions eligible for the first time for regional incentives. In the United Kingdom several large urban areas are also in regions eligible for regional incentives.

DIVISION OF FUNCTIONS AND REVENUE SOURCES

In most of the foreign countries examined, as in the United States, the federal system resembles a "marble cake" more than a "layer cake;" two or more levels of government play a role in many functions. The primary focus here is on which level of government actually delivers or administers a service regardless of which level finances it. However, the question of finance is obviously a critical one. A service can be delivered and financed completely by the local government, or it can be delivered by the local government and financed wholly or partially by other levels.

Division of Functional Responsibilities

In the German, Austrian, and Swiss systems, unlike the U.S. system, local governments are provided with constitutional recognition and what is, in effect, a federal grant of home rule. They may undertake local functions not expressly prohibited by law. The Austrian constitution also sets forth a specific set of local government functions. In addition, in both Austria and Germany, local governments are charged with administering certain federal (and state) government activities, which are sometimes financed at least partially through grants and sometimes through local resources. German municipalities, for example, administer the federal welfare system. Contrary to the conventional public finance wisdom that redistributive functions be financed nationally, German municipalities must finance welfare completely from the local budget, although eligibility and payment levels are nationally determined.

In Australia and Canada, as in the United States, local government functions are completely determined by the state governments, and in the United Kingdom they are completely determined by the central government. In all three countries, local governments may only do what they are explicitly permitted by the state (or, in the U.K.'s case, central) government; there is no "home rule" authority.

Despite these differences local governments in all of the countries except Australia perform a broad range of services, frequently in conjunction with, and partially funded by, state or national governments. In general, these services are much the same as those performed by local U.S. governments. Indeed, in some cases they go beyond those provided in the United States. Thus, for example, public utilities such as gas and electricity supply, are local functions in Germany, Austria, Switzerland, and Canada.

Typically, functions that are primarily local include local roads, police (except in Germany and Australia), fire, sanitation, parks and recreation, housing, primary education (in Germany, the state is responsible for teacher's salaries, while the local government is responsible for school building construction and maintenance), hospitals and health care (except in the United Kingdom), social welfare functions, public transportation, and public utilities except, again, in the United Kingdom. In Germany and Austria, these services are provided either by municipal government or by other local boards, districts, or authorities.* In the United

*Public transport and gas, water, and electricity supply are frequently provided through municipally owned public utility holding companies. In Austria, local governments are given unlimited powers to set up private companies to undertake an activity as long as it is consistent with law and regardless of whether it is a local function. In so doing the local government is legally considered a private entity and is subject to the laws of private companies. According to Pernthaler (1983:11): "Local government enterprises cover such activities as water and energy supply; traffic; sewage; garbage; hospitals; sports facilities; and public housing." This sector also includes the basic social welfare function.

Kingdom local functions are performed by one or both of the two-tier local government system (metropolitan and district government), a feature found in several Canadian metropolitan areas as well.

Australia is the main exception to the rule of broad provision of local government services. Local governments in Australia are, according to Jennifer Hutchinson (undated:45), "essentially administrative agents for state governments delivering a restricted range of services." State governments in Australia are generally responsible for such "local" functions as police, fire, education, housing, public transportation, hospitals, and, in some states, water supply, sewerage, gas and electricity.

Assignment of Revenue Bases

As in the United States, local revenue bases are assigned by the state-level governments in Australia, Canada, and Switzerland. However, in Austria, Germany, and the United Kingdom, local revenue bases are assigned directly by the national government, either by constitutional provision or legislation (although local governments may raise revenues by charging fees for traded services). Assignment of revenue bases is complicated in Germany, Austria, Switzerland, and Australia by tax-sharing arrangements that divide portions of a specific tax or taxes among various levels of government.

In the United Kingdom, the rates (property tax) is the only tax that local governments are permitted to levy. In both Canada and Australia, local authorities are also largely confined to the properly tax for own-source tax revenues.

In Switzerland, municipalities are typically permitted to levy a variety of taxes, although the exact mix varies from state to state. The state of Zurich, for example, <u>requires</u> its municipalities to levy an income and wealth tax, a capital gains tax, and a tax on households. It <u>permits</u> municipalities to levy a tax on real property and a transfer tax. The state of Bern requires municipalities to levy taxes on the same three sources mandatory in Zurich plus real property tax, and it permits a dog tax and an entertainment tax. With respect to the income and wealth tax, which all Swiss states require municipalities to levy, the graduated rates are set by the state. Each municipality can then determine, within limits set by the state, a proportion of the basic rate it wishes to levy; thus each municipality within a state has the same progressive rate structure even though actual rates may vary.

In Austria and Germany, local taxes are assigned almost completely through a tax-sharing process. Tax sharing can take two basic forms. In the point-of-origin form, a tax is shared by setting aside or returning a set portion of the tax yield to the local government within whose boundaries it was raised. The remaining portion is retained or assigned to state or federal levels of government. In the redistributive form, a set percentage of a federal or state tax is set aside for local governments, in the aggregate, but that portion is not simply returned to the local government from which it was raised. Instead, it is redistributed to local governments generally in pursuit of equalization objectives. The redistributive form of tax sharing is, in effect, a general revenue sharing grant financed from a trust fund into which the proceeds of a specific tax are placed.

In Germany, point-of-origin tax sharing is the main principle utilized. Local governments receive 15 percent of the federal income tax raised from citizens residing within the local government's boundaries. German local governments are also permitted to levy a property tax and a business and trade tax (a tax on business capital assets and profits). A portion (15 percent) of the local business and trade tax is, in turn, shared with the federal and state governments. Local governments are permitted to vary the rate of the business and trade tax only within a very limited range in order not to encourage competition for economic activity.

In Austria, a broad range of taxes are shared among the three levels of government. Some of the taxes are shared on a point-of-origin basis and some on a redistributive basis.

In Australia, redistributive tax-sharing arrangements exist between the federal and state government. Federal law also specifies that a percentage of federal revenue (2 percent of personal income tax revenue as of 1980) must be shared with each state for distribution to local governments within the state. The distribution of these tax-sharing entitlements to local governments is deter mined by each state on the recommendations of its state grant commission, partly on a population basis and partly on an equalization basis.

Canada has no tax-sharing system as such. However, it does have a tax-cooperation arrangement between the federal and provincial governments through which the federal government collects the provinces' income taxes. Each province sets its own tax rate as a percentage of the federal individual income tax payable (or, for corporations, a percentage of its taxable income). The federal government piggybacks the provincial government's tax collection on top of its own, thus relieving the provincial government of all costs of collection.

The actual distribution of local tax revenues by source is shown in Table 4-4. The table clearly reveals the importance of the property tax as a local revenue source in the United Kingdom, Canada, and Australia, as well as in the United States, and the importance of the income tax in Germany and Switzerland. It also emphasizes the relative diversity of local tax sources in Austria, Germany, and Switzerland.

TABLE 4-4 Local Tax Revenue by Source, 1979

	Individual Income Tax	Corporation Taxes	Payroll Taxes	Real Estate Property Tax	Wealth Tax	Taxes on Goods and Services	Other
Australia				96.3			3.7
Austria	33.8	4.3	12.1	5.6	1.4	34.6	8.2
Canada				83.3		1.4	15.2
Switzerland	74.7	10.9		2.4	10.1	0.3	1.6
United Kingdom				100.0			
United States[a]	5.0			80.5		13.5	1.0
West Germany	59.7	11.9	7.4	12.7		0.8	7.5

[a]Information for the United States is for 1977.

SOURCE: Organisation for Economic Co-operation and Development (1980).

FISCAL FEDERALISM AND URBAN FINANCES

The role of intergovernmental aid in local finances and the route through which it reaches local government treasuries varies substantially among the countries being discussed. Intergovernmental grants (exclusive of revenue from tax-sharing arrangements) range from a relatively small percentage of local government revenue in Austria (16.2 percent in 1978) and Switzerland (17.2 percent in 1974) to more than half of local government revenues in Canada (51.2 percent) in 1980 (see Table 4-5). However, both Austria and Switzerland have redistributive tax-sharing systems that might be considered the functional equivalent of intergovernmental aid.

TABLE 4-5 Grants as a Percentage of Local Government Revenue (1980 unless otherwise specified)

Country	Percentage	
Australia	21.9%	(1979)
Austria	16.2	(1978)
Canada	51.2	
Switzerland	17.2	(1974)
United Kingdom	48.8	
United States	35.6	
West Germany	31.4	

In most of the other countries (again, with the obvious exception of the United Kingdom) relatively little direct aid flows from the national government to local government. The typical pattern is for substantial amounts of general aid to be provided by the federal government to the state, and for the state, in turn, to provide both general and categorical aid to local government. The overall pattern is one of much greater provision of general aid compared with categorical aid than is the case in the United States.

The most striking difference between aid systems in these countries and in the United States is the degree to which the other countries incorporate equalization factors in their distribution formula. Indeed, equalization is an explicitly stated objective of the grant system in many of these countries. In Germany, the federal constitution calls for a "uniformity of living conditions" in the federation, and the rationale of the grant system is to assure average national standards (USACIR, 1981a:71). In Canada, the 1982 Constitution Act, which underpins the federal-provincial grant system, commits the federal government (Auld and Eden, 1983:475) to

> making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

And in Australia, the terms of reference for the 1981 review of the federal-state tax-sharing arrangements (Mathews, 1981:15) stated:

> Each state's tax sharing entitlements should enable it to provide, without imposing taxes and charges at levels appreciably different from those of other states, government services at standards not appreciably different from those of other states.

The actual mechanics of fiscal equalization procedures differ from country to country. In Germany, the United Kingdom, and to some extent Australia, expenditure <u>need</u> (i.e., the need, or in economic terms demand, for services in an area) as well as <u>tax capacity</u> criteria are utilized. In Canada and Switzerland, however, equalizing fiscal capacity is the dominant concern and little effort is made to take need into account. Fiscal equalization efforts are primarily vertical—that is, a higher level of government redistributes resources among lower levels of government on an equalizing basis. In some cases, however, fiscal equalization occurs horizontally. In Germany, the transfer of fiscal resources from high to low fiscal-capacity states is negotiated (termed a "brotherly" agreement), and in Austria and Switzerland some states require horizontal transfers of resources from local governments with high fiscal capac ity to those with low capacity.

Typically, equalizing grants are provided by the federal to the state-level government. In Australia, tax sharing is provided on a redistributive equalizing basis to the states. In addition, special assistance—or equalization—grants are provided to the four financially weaker states to enable them to provide services equivalent to those of the two "standard" states (New South Wales and Victoria) without having to impose higher tax rates than those states.

Australian local governments do not receive federal equalization grants. However, as noted earlier, a portion of federal tax revenues is set aside for distribution by each state to its local governments. The exact distribution of these revenues is determined by the grant commission in each state, but according to federal law, at least 30 percent of the distribution must be on a population basis and the remainder on a "general equalization basis."

Canada also provides equalizing grants from the federal government to the provinces. The basis for the distribution of these grants is the representative tax-capacity system, which has long been advocated for the United States by the U.S. Advisory Commission on Intergovernmental Relations. Relative fiscal capacity is measured by applying nationally averaged tax rates to a standard set of tax bases (measured on a per capita basis) for each province. Grants are then distributed to bring provinces up to the average level of the fiscal capacity of five "representative" provinces; this excludes fiscal outliers, such as rich Alberta, and thus reduces the amount of the equalization grant. This grant-distribution mechanism reflects a national change from the previous practice of pegging the equalization grant to the average fiscal capacity for all provinces rather than a representative set.

The Canadian equalization system does not extend to local governments, nor do the provincial governments provide a substantial amount of equalizing general grants to localities. While the amount of aid from provincial to local governments is substantial, nearly all of it is in the form of categorical aid for a broad variety of purposes—education, police, water and sewer services, neighborhood improvements, road maintenance, public transportation, and so on. Actual grant amounts and their distribution are determined within each state through a series of negotiations between provincial gov ernments and the local government association. A small (less than 20 percent) but growing amount of provincial aid is provided as general grants to local governments, and some of that is provided on an equalizing basis (USACIR, 1981c:25).

In the United Kingdom, the grant system is equalizing both with respect to local fiscal capacity and expenditure need. The U.K. central government calculates a per capita spending norm (termed a Grant Related Expenditure Assessment or GREA) that reflects a needs assessment for each local authority. The GREA is "built-up" on the basis of estimates of need and the per unit cost of providing services for each local authority function (e.g., the number of children requiring special education). The central government then sets a grant-related poundage and a grant-related poundage schedule.

The grant-related poundage is the single tax rate that all local authorities are expected to levy to finance their GREA. Obviously, the same grant-related poundage will result in differences among local authorities in the amount of revenue raised because of differences in local fiscal capacity. The government general grant (termed block grant) to a local authority spending at its GREA level (reflecting differences in need) is equal to the difference between the GREA level and the local revenue raised from applying the national grant-related poundage to its own base (reflecting differences in fiscal capacity).

The GREA, however, is merely an expenditure guideline; local authorities in fact do not usually spend precisely at that level. Local authorities spending at a level other than their GREA receive a rate-support grant equal to the difference between their actual per capita expenditure and the amount of locally raised revenue derived from applying the appropriate grant-related poundage for that expenditure level. The appropriate grant-related poundage varies with expenditure level according to a grant-related poundage schedule. In 1982–1983, for example, the grant-related poundage was decreased by 0.6p for each pound of per capita expenditure below GREA and increased by 0.6p for each pound of per capita expenditure above GREA.

In addition, the British system incorporates penalties for local spending above central government expenditure thresholds. These penalties in effect result in lower central government matching payments for local expenditures above the threshold level (10 percent above the authority's GREA in 1982–1983); for many of the larger urban authorities the matching rate becomes negative and they actually lose grant payments.

The German federal government does not provide general resources to the states through a grant system, but through the tax-sharing system described above. Of the two major shared taxes, the income tax is shared with the states and municipalities on a point-of-origin basis, while the value-added tax is shared with the states on a redistributive basis, taking equalization objectives into account. Thus, a portion of the value-added tax is made available to those states whose revenues are below the all-state average. These states receive a share of the value-added tax sufficient to bring their revenue to 92 percent of the state average (USACIR, 1981a:69).

In addition to the vertical equalization, the states engage in horizontal equalization among themselves through a series of interstate consultations and agreements. As a consequence, those states with above-average tax capacity pay a portion of their "surplus" to an equalization fund, which is distributed to the "deficit" states.

The German constitution precludes direct federal grants to local governments for operating purposes. Instead, the constitution requires that each state distribute a share of state revenues to local governments. The exact share is unspecified, but in practice it varies between 20 and 30 percent for most states. Although the distribution mechanism is also unspecified, every state has chosen to distribute most of these revenues in the form of a general grant designed to achieve partial equalization. As Reissert and Schafer (1984:16–17) observe:

> It is surprising that all states created similar systems of unconditional grants for equalization purposes and that these systems have become virtually identical through a series of adjustments during the last 30 years despite the absence of federal legislation. The explanation seems to lie in the facts that the main characteristics of the system date back to a similar system created in the Weimar Republic and that developments in one start are closely watched and imitated in other states if local government lobbyists demand this. . . .

The equalization grants take into account both tax capacity and fiscal need. Tax potential is calculated by applying a standard tax rate to each of three local tax bases: the real estate tax, the business tax, and the local share of the income tax. Need is determined primarily by population size. However, several states adjust population size to take into account the presumed greater need of municipalities that serve "central place" functions. Thus, a municipality's population is first adjusted by a factor that increases with city size. In 1977, for example, in Nordrhein-Westphalia the multiplier for municipalities with populations in excess of 500,000 was 1.35, compared with 1.25 for municipalities of 200,000, 1.15 for those of 50,000, and 1.05 for those of 10,000. This adjusted population size is then further adjusted by a factor related to the number of pupils in the municipality to take into account the needs of areas serving central-place functions. Other adjustment factors may then be used, but they are of relatively minor importance compared with the central-place adjustments. The resulting adjusted population figure is then multiplied by a basic grant figure per capita, which is set up by the state, based on the total amount of available aid.

The actual grant is calculated by comparing tax need with tax potential. Sufficient aid is provided to bring each municipality's resources (tax potential plus aid) to some percentage of its need (90 percent in Nordrhein-Westphalia in 1977). If a community's tax potential exceeds its need, it receives no aid.

In Austria, a complex tax-sharing system results in substantial equalization among the states. In addition, a federal per capita equalization grant is paid by the federal government to states that have below average fiscal capacity (in terms of per capita receipts from the various tax-sharing schemes, since 96 percent of all state revenue is derived from tax sharing). The grant is sufficient to bring the below-average states up to the average tax capacity.

Local governments also receive tax-sharing revenues. However, 13.5 percent of the local portion of tax sharing is deducted and provided to the state governments for operating a "community equalization fund." The proceeds of the fund are allocated by each state, on an equalizing basis, as grants to individual communities to meet specific needs. In addition, 5 percent of the local share of tax sharing is set aside for state per capita equalization grants to local communities. These grants make up 30 percent of the difference between fiscal need (calculated giving greater weight to cities with larger populations) and fiscal capacity.

In Switzerland, federal tax sharing and special-purpose grants are provided on an equalizing basis to the states. Equalization is based on fiscal capacity rather than need. States, in turn, make both general and conditional grants on an equalizing basis to municipalities. Several states have horizontal equalization schemes whereby municipalities with a high fiscal capacity transfer part of their tax capacity to poorer municipalities.

The lack of direct federal-local grant relationships is a striking difference between the United States and other federal nations. In Austria, for example, Pernthaler (1983:37) notes, "Only a few direct federal grants are made directly to communities. . . . An attempt by the federal government to extend the range was vehemently rejected for the states." In Germany, there are no direct federal-local grants. A 1975 supreme court decision held that while the federal government could define the broad proposal of grants for local government—in particular urban renewal, transportation, and hospital construction—the grants themselves had to be provided to the states with both the specifics of the grants and the distribution mechanism left at that level of government. German urban programs are thus more similar to U.S. block grants to the states for small-city community development than to the community development block grants that go directly from the federal government to entitlement cities. In Canada, there are almost no direct federal-local programs and the effort to establish a federal agency for coordinating urban affairs was ultimately scrapped as a result of provincial opposition. In Australia, there are a small number of direct federal grants to local governments, primarily for social service purposes, but a 1974 national referendum that would have greatly expanded federal government grants to local governments was defeated.

CONCLUSION

The utility of comparing the United States with foreign countries frequently is seen to lie in the potential for transferring the policies or practices of those countries to the United States. While the possibility of such transfers does exist, the difficulty inherent in transplanting across systems of divergent political, social and economic characteristics should not be under-estimated.

Perhaps a more valuable benefit to be gained from comparative analysis is that such analysis can both broaden the sense of the possible and provide a framework for better understanding our own behavior. The process of comparative analysis should lead to questioning what frequently is simply assumed without question. Thus, the most valuable lessons derived may well be lessons about ourselves rather than lessons about other countries. In order to provoke the introspection required, it is useful to focus on the areas of greatest difference between national-local relations in the United States and in the other countries examined here.

First, the most striking difference is the relative absence of equalization as an important objective of the intergovernmental fiscal system in the United States compared with the other countries. It is not probable that this reflects a more equal distribution of income among the states or among the major urban areas in the United States than in other countries. More likely, it reflects a strong U.S. aversion to redistribution as a political goal as opposed to redistribution as an incidental side effect, which of necessity, occurs in the pursuit of other objectives. In fact, the U.S. grant system, while mildly redistributive, is not equalizing. Davis and Lucke (1982:350) found a correlation of .154 between the per capita state distribution of federal grants in 1980 and state revenue capacity (that is, those states with higher fiscal capacity received, on average, more aid per capita than did states with lower capacity). As a result, fiscal disparities among states or among cities are much greater in the United States than in the other countries. The lesson the United States needs to learn is not how to set up equalizing intergovernmental transfers; it is how to develop the political will to do so.

Second, direct national-local relations through the grant systems are much more prevalent in the United States than in the other federal countries, where the pattern is for federal grants to the state level and state grants to the local level. To some extent this reflects the U.S. history of relatively weak state governments and underrepresentation of urban interests in state politics. The unwillingness of states to address themselves to urban concerns during the 1950s and 1960s, when urban problems began to emerge, led to direct federal-local relationships, which continue to exist (although President Reagan's block grants lead in the other direction), even in an era in which states are much more active and representative. However, to the extent that city problems are concentrated in states with low fiscal capacity, the lack of a strong system of intergovernmental fiscal equalization among the states reinforces the continued existence of direct national-local grant relations.

Third, formal negotiations or consultations between local government associations and the national government—particularly with respect to grant arrangements—exist in many of the other countries. In the United States individual city governments and local government associations lobby the federal government, but they are rarely brought so overtly into the governmental process.

To some extent this reflects another difference between the United States and other federal countries. Federalism is a much more formal and legalistic set of arrangements in other federal countries, whereas in the United States it is more the institutional structure through which intergovernmental politics occurs.

Fourth, categorical or conditional grants are much more prevalent in the United States, while general grants are more prevalent in other countries. The utilization of categorical grants in the United States reflects the U.S. response to the problem of how to pursue national objectives in a country with diverse local political objectives. The problem does not arise as much in countries with less regional political diversity than the United States, such as Germany, Austria, and Australia. (In countries with greater regional political diversity, such as Canada, the federal government has selected a much more limited set of national objectives to pursue.)

The pursuit of national objectives is also dealt with more directly in some countries. The U.K. central government, for example, simply mandates local government to carry out what it deems to be local objectives; there is no need to attach conditions to grants. In Germany and Austria, the federal constitution gives local governments autonomy, except where the federal government defines a federal interest (i.e., posits national objec tives). In addition, in both countries constitutional arrangements require state and local governments to administer federal law.

Finally, state governments play a much stronger role with respect to their urban areas in other federal countries than in the United States. This observation, the explanation for which has already been touched on, suggests that any national urban policy in the United States should pay particularly close attention to the role of the states. In particular, the problem of how best to expand state responsibilities and actions for urban areas within the context of national objectives must be resolved. Reducing direct national-local grants and moving from categorical to block grants will not suffice if states do not themselves accept a more active role. In many of the countries examined, the lower direct federal government role in dealing with urban areas was accompanied by federal inducements or requirements for states to pursue a more active urban role. Perhaps this is a direction worthy of examination for U.S. national urban policy.

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5

The Distributive Politics of the New Federal System: Who Wins? Who Loses?

Dale Rogers Marshall and John J. Kirlin

INTRODUCTION

President Reagan's domestic policies seek to promote economic growth, to cut federal domestic expenditures, especially on welfare, and to reduce the policymaking role of the national government while increasing that of states. In Reagan's view: "Government is not the solution to our problems. Government is the problem" (Reeves, 1984:26–29). Reagan argues that the "taxing power of government must . . . not be used to regulate the economy or bring about social change" (U.S. Congressional Record, 1981:H510–H514). This traditional conservative view suggests that Reagan's goal is not just to trim expenditures, but to redefine the role of the national government. Among those policies being revised are urban policies adopted in the past two decades to help disadvantaged places and persons. Some would argue that the objective is to dismantle the "welfare state," an attack encompassing not only specific programs but the premises (theories) that have dominated recent policymaking.

While definitions of the welfare state differ, a common element is redistribution of society's resources through public policy. For example, Janowitz (1966:10) argues that "the welfare state rests on the availability of some form of economic surplus . . . that can be reallocated in terms of a set of principles." Perceptions of both economic surplus and principles by which it should be reallocated are not immutable laws of nature. They are instead theories, social constructions containing both descriptions of what is occurring and valuations. For example, does an economic surplus exist after subsistence needs are met or after investment in capital goods for future production? Similarly, should reallocation of any surplus be on the basis of income, class, merit, or some other criterion? Policy choice requires closure that is inevitably political, although empirical evidence and analyses may intrude.

While most discussions of the welfare state focus on redistribution, the concept of "distributive goods" is also useful. An activity of government provides distributive goods whenever benefits of the activity are received by some individuals to the exclusion of others. Some theorists call these "private" goods, noting that such goods can be produced by governments as well as by private firms. This is in distinction to goods whose benefits may not be appropriated by any individual, but are instead "public" goods. Among examples of the latter are legal systems or national defense: All members of society benefit from expectations of the security of contractual arrangements and from physical security and no one can be excluded.

Few governmentally produced goods or services are pure public goods; most are distributive or private goods or "mixed" goods with elements of general and individual benefits. Two examples of mixed goods are publicly funded education and urban redevelopment. Recipients of schooling and users of renewed physical structures and owners of adjacent property benefit individually, but general or public benefits are also accrued in the form of a better-educated citizenry and labor force and in increased economic activity and government revenues.

Government action, thus, almost always has distributive impacts: Some individuals are assisted more than others. While the total of benefits received from all governmental activities may balance out among individuals, it is more likely to be the case that some individuals come out comparative winners and others comparative losers as a result of government's activities. This is "redistribution" in the technical sense. However, in common language and in most policy debates and policy evaluations, the term redistribution is defined more narrowly as the incidence of benefits received versus costs borne in terms of an individual's income.

One of the anomalies of politics in this nation is that income-related redistribution has come to be identified almost exclusively with transfers to those of lower incomes. In the dominant theory, redistribution is equated with welfare. Governmental activities pro viding net benefits to individuals of higher than average incomes are not perceived as "redistribution" and certainly do not carry the negative label of "welfare." The dominant language of politics and policymaking emphasizes two types of programs: welfare and public goods. If a program is targeted on the poor, it is welfare; if not, it is discussed as if it were a public good. This limitation of language is powerful politically. It masks the reality that almost all governmental activities are distributive; they affect individuals differentially because they are mixed or private goods. Moreover, it blinds citizens and policymakers alike to the substantial redistribution to individuals of higher incomes that occurs as a result of many governmental activities.

These limitations on common perceptions of governmental activities, joined with demographic factors (the poor are a minority) and differential rates of political participation and organization (which favor the better off), make it difficult to adopt and maintain programs that benefit the poor. This was true both before and after the election of Ronald Reagan.

In this paper we examine distributive impacts of Reagan's domestic policies, particularly the effects on affluent and less affluent people and places and on changes in the dominant theory of domestic policies. To provide a baseline and context for comparison, we first review the distributive impacts and dominant theory of national policies in the 20 years prior to Reagan's presidency. This review reveals that economic growth made the major contribution to rising standards of living. Expanding social programs also contributed to a modest redistribution of society's resources toward the poor. However, the largest and most rapidly growing federal domestic programs were not pro-poor in operation. In the same two decades, federal tax and expenditure patterns encouraged equalization of incomes among cities, states, and regions. In that period, social policies were justified both as benefiting the general public and promoting redistribution to the poor, but there was little recognition that virtually all policies are mixed goods with major distributive effects, few of which help the poor.

With the context established, we turn to an examination of changes made during the Reagan presidency. We review current evidence on the distributive impacts of Reagan's cuts in entitlement and operating grants, and the net effects of those plus changes in defense spending and in taxes. Overall, the evidence confirms expectations that Reagan has somewhat decreased redistribution from affluent to less affluent people and places (Palmer and Sawhill, 1982). Moreover, improving performance in the economy may not pull up the bottom of the income distribution. In part this is because the cuts that have been made have focused on pro-poor, redistributive, welfare programs, while leaving relatively unscathed those programs whose distributive effects favor the more affluent. The political power of those with middle-class and better incomes has protected their programs. Reagan's policies have been pursued in the name of protecting a general interest in a public good, namely economic performance. Redistribution to the poor is attacked as undermining the work ethic. An expansive public sector is attacked as diverting resources needed for investment and reducing incentives for income generation. This represents an important shift in the dominant theory underlying domestic policy in the Reagan administration. We argue that the theory base of social policy has shifted more than the distributive impacts.

Next, we consider variations in state and local responses to Reagan's programs. They depended on the type of program, amount of fiscal pressure, and political ideology. Finally, we examine special problems of minorities and cities and close with a discussion of key issues that emerge from the analysis.

The evidence of policy effects considered in this paper is limited to that which is available in previous analyses, a not uncommon limitation. But we have also sought self-consciously to include available evidence on the impacts of the full range of governmental activities, not just "urban" policies. Some of the conflict over the design and effects of redistributive policy results from varying definitions of the relevant policies. If the focus is simply on pro-poor or urban programs, much of the richness of policymaking in the American political system is missed. Pro-poor programs make a modest contribution to improving life situations of the poor, so this focus is not sufficient if that is one's goal. To understand the effects of the Reagan policies, a broader net is mandatory, as those policies have emphasized the contributions that general economic growth, subnational policies, and nongovernmental efforts can make to reducing poverty and to improving the quality of life in cities.

DISTRIBUTIVE POLITICS IN THE PRE-REAGAN PERIOD

In the 20 years prior to the Reagan administration, federal expenditures increased rapidly. How much redistribution from the affluent to the nonaffluent took place in this era of growth?

Distributive impacts are complex and controversial, varying by program and over time under different administrations. Assessments also change, as illustrated by the fact that some of those who were most critical of the earlier programs now criticize the Reagan administration for attempting to change them (Piven and Cloward, 1982; Auletta, 1983:296). Yet retrospective evaluations of the domestic programs from the Kennedy-Johnson administrations through Carter reveal some general patterns.

This pre-Reagan period was a time of expanding federal benefits for individuals and cities. The largest entitlement programs, Social Security and Medicare, were not means-tested and benefited the middle class without much of a downward tilt. But some of the smaller entitlement programs, such as Aid to Families with Dependent Children (AFDC) and Medicaid, were redistributive. Operating grants for state and local governments constituted a much smaller proportion of federal domestic spending than entitlement grants. Distributive impacts were mixed, depending on the type of program and characteristics of the entities implementing federal initiatives. Operating programs as well as entitlement programs that provide services, such as Medicare and Medicaid, provide benefits to provider groups and not just to the eventual recipients of services.

Yet, modest levels of redistribution did occur and social programs contributed to those trends. There was a decline in absolute poverty and a move toward more equality of income (Plotnick and Skidmore, 1975). The federal government also played an income-equalizing role among cities, states, and regions and stimulated local jurisdictions to assume responsibilities for new programs, some of which were oriented to disadvantaged groups. In this era, redistribution gained prominence on the political agenda. But the amount of redistribution that actually occurred was more modest than commonly recognized because the biggest programs were not pro-poor.

The underlying theory in this era justified policies in terms of promoting both general public interests and redistribution to the poor. The thrust was toward an expansion of the public sector without much knowledge of, nor concern for, the long-term costs. Despite a few explicitly distributive policies for poor people and places, the distributive impacts of the other policies, which were not pro-poor, were rarely acknowledged. Support for the redistributive policies was quite fragile because they were often instituted "on the cheap" politically and fiscally.

Entitlement Grants

Many people believe that most government spending has been for programs that benefit the poor, but they are wrong. The largest and fastest-growing portions of the domestic budget in the pre-Reagan era were entitlement grants providing cash or in-kind transfers to families and individuals. They constituted approximately 48 percent of federal budget outlays in 1976 (Palmer and Mills, 1982:65). The largest of these programs—Social Security and Medicare—represented 38 percent of the federal budget in 1978 and chiefly benefited the middle class (Page, 1983:88). Means-tested transfers—AFDC, Supplemental Security Income (SSI), Medicaid, and Food Stamps—were a much smaller share (10 percent in 1976) of the federal budget (Palmer and Mills, 1982:65). So, low-income assistance with a downward tilt was not the largest proportion of government spending on transfers; expenditures for the other programs were almost four times larger.

Social Security involves regressive taxes and pro-poor benefits, but overall it "gives back to each income class roughly the same amount it takes away . . . there is not much net redistribution of lifetime incomes" (Page, 1983:29). Medicare, like Social Security, covers the elderly population and is directed mainly at the middle class. Like Social Security, it is financed by a regressive payroll tax, and the value of the insurance the average person receives from the program is roughly equivalent to the money paid in during his or her working years (Page, 1983:75).

Means-tested assistance programs expanded more rapidly than did Social Security in the 1971–1979 period (232 percent versus 192 percent), though by the late 1970s their growth had slowed and benefit levels were not keeping up with inflation (Page, 1983:70). To gether, AFDC and SSI constitute only about one-tenth of federal expenditures on retirement and disability programs or about 3 percent of federal expenditures (Page, 1983:70). Food Stamps, Medicaid, and housing assistance, being in-kind transfers, help provider groups as well as recipients. Medicaid, which provides a large transfer from high-income people to low-income people, may not have helped the poor as much as its costs would indicate because the rising fees went to doctors and hospitals (Page, 1983:76). Rent supplements, like AFDC and Food Stamps, helped mostly those with the lowest incomes, but they constituted a very small program and most of those who were eligible could not get supplements. The largest program of housing assistance, namely, homeowners' deductions of mortgage interest and property taxes (estimated at $33 billion in 1982), constitutes a subsidy to higher income individuals.

Operating Grants

In the highly decentralized U.S. federal system, the central government attempts to achieve some of its goals by providing operating grants to state and local governments for many services, including employment, economic development, health, education, housing and community development, transportation, and social services. These grants are a much smaller proportion of the federal budget than entitlements (10 percent compared with 48 percent in 1976; Palmer and Mills, 1982:65). Each administration in this period had its own version of New Federalism, using different types of grants that varied the targeting on national goals versus discretion for local officials (Wright, 1982).

Johnson's New Federalism spurred a rapid expansion of categoric grants for poverty and depressed areas, including cities. These grants involved high federal control and a dual strategy of funding both city governments and special entities, such as community-based organizations. The grants were oriented not just toward reducing poverty but also toward redistributing political resources and improving local capacity to plan, coordinate, and deliver services to the poor, goals that often were in conflict (Marris and Rein, 1967). Overall, the grants did stimulate local spending and resulted in some redistribution of resources to needy people within cities and some redirection of federal money to the poorer cities and regions of the country (U.S. Advisory Commission on Intergovernmental Relations, 1978a, 1978b; hereinafter USACIR; Whitman and Cline, 1978).

Block grants and general revenue sharing instituted in the Nixon and Ford era of "decentralist" New Federalism decreased federal control and relied on formulas rather than project applications to determine the distribution of funds. Block grants placed fewer restrictions on local discretion than general revenue sharing, but more than categorical grants. Both kinds of grants spread resources to less needy people and cities (USACIR, 1977; Nathan and Adams, 1977; Nathan et al., 1977). A major consequence of general revenue sharing and formula-allocated block grants was that virtually all local governments received federal aid and became subject to both program-specific and cross-cutting federal regulations.

Carter's "economic" New Federalism continued the tripartite mix of grants, but emphasized programs to counteract structural and cyclical economic distress, including Urban Development Action Grants and Public Service Employment (Kirlin, 1982). Federal controls over Community Development Block Grants (CDBG) and the Comprehensive Employment and Training Act (CETA) were gradually increased in response to criticism for fraud and waste and resulted in more social and geographic targeting (Nathan et al., 1977; Dommel, 1982).

Even though operating grants to state and local governments were a much smaller portion of the federal budget than transfer payments in the pre-Reagan era, interest groups (including program constituencies) focused intense political controversy on these discretionary funds. Evaluations of the programs continue to reflect those controversies.

Proponents argue that operating grants supplement benefits from entitlement grants and help raise living standards of low-income groups. In this view, health (Davis and Schoen, 1978), education (Mazmanian and Sabatier, 1983), and community development (Dommel, 1982) programs have all benefited the poor. Even employment programs, which have been harshly criticized, are seen as providing some assistance to low-income participants (Baumer and Van Horn, 1984).

Critics hold that operating grants are an inefficient method of redistributing resources, i.e., that the costs are too large for the benefits received. They argue that provider groups, which constitute the political base for the programs, benefit more than the actual clients.

Defenders of operating grants point out that such grants also increase the capacity of local jurisdictions to respond to low-resource groups and redistribute political resources to the poor. They add new services for the poor in education, health, housing, social services, and so on (Browning et al., 1984), though in many cases those services are kept separate from a jurisdiction's core activities, not supported by general funds, and not viewed as local programs. They also engender various kinds of citizen-participation structures and procedures that, however weak, contribute to subtle but not insignificant shifts in local political dynamics. The programs are seen as qualified successes because they promoted political change, stimulating local governments to provide new services for the poor and increasing the ability of the poor to organize and to promote local government responsiveness (Levitan, 1969; Haveman, 1977). Local governments became strong partners with the national government in an intergovernmental system characterized by mutual dependence, an "uneasy partnership," but one in which both the national and local governments were both individually strong and interdependent (Reagan and Sanzone, 1980; Williams, 1980; Leonard and Marshall, 1982; Fossett, 1983).

The impacts of grants depend partly on the characteristics of the local entities implementing them. It is extremely difficult to force local entities to target their programs on the poor when their leaders oppose such redistribution. Grants facilitate changes in local organizations willing to move in the direction desired by the national government, but they cannot directly force that change on resistant recipients (Ingram, 1977; Browning et al., 1980; Williams, 1980; Mazmanian and Sabatier, 1981). The grants, however, do provide additional resources to some local groups favoring redistributive programs, thereby helping them gain more political influence (Peterson and Greenstone, 1977; Browning et al., 1984).

Impact on People and Places

In the pre-Reagan period, economic growth was a major factor in the rising standard of living, the decline in absolute poverty, and the overall movement toward relative equality of income, but social programs, especially entitlements, also contributed to these results (Bawden and Levy, 1982:460). Thus, those who say the pre-Reagan programs did not work are judging them too harshly; they did promote redistribution toward the poor.

The economy grew steadily in the early 1960s to the early 1970s, the living standard of the average family improved, and the percentage of the population below the poverty level declined by almost half. During the 1970s, the standard of living increased only slightly, while the percentage of the population below the poverty line stayed rather stable, due particularly to growth of female-headed households (Bawden and Levy, 1982:461). Studies show that at the end of the 1970s government income transfers reduced the number of poor people below the official poverty line from about 20 percent in 1965 to 11 percent, or to 4.1 percent if income underreporting, taxes, and the value of in-kind benefits are considered. However, relative poverty was the same as it was in 1965 (Page, 1983:89).

Depending on their values, analysts reach conflicting conclusions about these impacts. Wilensky (1983) sees the achievements as substantial. Page does not. He says that the large sums spent on entitlement grants have contributed to redistribution, but have done "much less than most people imagine to increase the equality of incomes . . . they raised many people out of misery and guaranteed a minimum level of food, money and medical care for most of the population. But . . . [they] have not brought about substantial increase in income equality" (Page, 1983:91).

This picture of the distributive impact of programs on individuals is not changed by a consideration of taxes. Taxes have little if any effect on income redistribution: While federal taxes are somewhat progressive with a regressive social security payroll tax diluting the moderately progressive individual income tax (effective rates as contrasted with the nominal scheduled rate), this progressivity is nullified by regressive state and local taxes (Page, 1983:22–34).

The impact of pre-Reagan programs on regions, cities, and states was more clearly redistributive. Until 1980, federal tax collections were somewhat higher in the North than in the West and South. Nondefense federal outlays during the 1970s were above the national average in the Northeast and the West. Defense outlays were highest in the South and West. Muller (1982:444) concludes that "the combined effect of large tax contributions by northern industrial states, the more regionally equal distribution of nondefense federal funds, and the concentration of defense outlays in the South and West resulted in a steady flow of federal dollars from northern regions to other areas." Federal tax and expenditure patterns helped to equalize incomes between the higher income industrial states and low-income states with large rural populations (Anton, 1980:33–35; U.S. Department of Housing and Urban Development, 1982:26; hereinafter USHUD; Muller, 1982:446). Federal operating grants also contributed to redistribution by targeting needy jurisdictions (Anton, 1980:100; Owens and Wade, 1984).

In sum, the dominant theory of the pre-Reagan era emphasized centrally initiated social policy, which was justified primarily in terms of providing generalized benefits but also in terms of promoting redistribution, with the latter being equated with pro-poor activities. Program expansion was seen as good and little attention was given to the long-term program costs. Some policies were discussed in explicitly redistributive language (e.g., policies for needy cities and populations), but there was little recognition that virtually all programs and policies were mixed goods with major distributive effects, few of which helped the poor.

Redistributive policies were often initiated by a few key individuals, which when combined with a weak fiscal base, made the policies very fragile. Financing came from increased revenues obtained not through a direct tax increase, but through an inflation-induced creep of personal income tax brackets, reductions in defense spending, or increased Social Security taxes. Political support was also weak because the full costs of social programs were not recognized, and because the programs' initiation preceded development of interest groups powerful enough to defend them. Goals were vague, conflicting, and changing (for example, CETA-Public Service Employment was launched as an anticyclical economic stimulus program, but it was redefined as an income redistribution-training program). When economic performance faltered and fiscal strain increased, the political coalitions that had supported the policies and dominant theory of the pre-Reagan era were defeated.

DISTRIBUTIVE POLITICS IN THE REAGAN ADMINISTRATION

Liberal critiques of the pre-Reagan policies often faulted redistribution as insufficient and predicted a rising concern with redistribution (Haveman, 1977). Events, however, have followed quite a different course. A strong economy, which had been taken as a given, became problematic. Starting in the late 1970s, even before the Reagan administration, generation of resources replaced redistribution of resources as a dominant issue on the national agenda.

The foundation of President Reagan's domestic program was economic recovery based on tax cuts, reductions in domestic spending, regulatory relief, and monetary restraint (USHUD, 1982). The program assumed that economic growth would promote the vitality of cities and citizens living in them by providing jobs and expanding the tax base. Cuts in domestic spending for cities and individuals, many predating Reagan, were accelerated in his administration. Reagan's version of New Federalism increased the role of states. His policy was to give "maximum feasible responsibility" for urban matters to states on the theory that states are more capable of meeting problems—more responsive, efficient, and accountable—than the more distant federal government. Reagan's urban policy asserted that states can mobilize broad bases of support to tackle their economic, financial, and social problems and can correct imbalances in local fiscal capabilities (USHUD, 1982:56–57). The policy presumed that federal assistance should not try to reverse urban decline but should complement rather than displace market forces through assistance that attracts private investment (USHUD, 1982:23). Reagan emphasized economic development, public-private partnerships, and a work-oriented theory of welfare that holds that poor people who are working, or who are able to work, ought to be excluded from the welfare system to discourage dependence (Nathan and Doolittle, 1983:3).

The programs discussed in the remainder of this paper result from a complex policy process in which the President proposes, and Congress disposes, so the resulting political compromises may not reflect the preferences of any of the participants. They are nevertheless called Reagan programs.

What have been the distributive impacts of Reagan's programs over the past four years? The size and scope of the national social programs have been reduced and income taxes have been decreased. Social program benefits and the number of beneficiaries have been cut, and costs have been shifted to state and local governments and consumers of the programs. These changes have decreased the modest levels of redistribution that characterized the pre-Reagan period. Lower income groups (including minorities, the elderly, and women heads-of-households) are losing and higher income individuals are gaining. In addition, Reagan's programs are increasing disparities between affluent, growing regions and cities and poorer, less economically vital ones.

This pattern reflects political realities. Programs with the least political support were cut and those with more support were largely spared. Administrations are most responsive to their own constituencies, their own base of political support. A Republican-controlled Senate helps the Reagan administration make its preferences prevail. However, the administration has been much less successful since the dramatic victories of the 1981 Omnibus Budget Reconciliation Act. Recently, cuts have been restored as constituencies that benefited from the pre-Reagan programs—public and private provider groups and related interest groups seeking to protect their core activities—have reasserted themselves.

The underlying theory of Reagan's social policies is dramatically different from the theory of the pre-Reagan era. Reagan's policies are justified in terms of promoting the common good, not in terms of redistribution to the poor. Program cuts and a reduced national role are defended not simply on financial grounds but also on grounds that federal efforts to promote social change are harmful. Theory in this era, as in the earlier era, continues to ignore the distributive impacts of the broad range of federal activities, except in tax policy; some justify tax cuts to provide incentives for work, savings, and investment. The fragile support for redistribution that had existed previously was unable to block the ascendance of a new dominant policy theory.

Entitlement Grants

The largest Reagan dollar cuts were in low-income assistance entitlement grants—AFDC, Food Stamps, and

Medicaid (these constitute about one-fifth of all entitlement programs) (Palmer and Sawhill, 1982:14; U.S. Congressional Budget Office, 1983:19; hereinafter USCBO). Benefit payments for individuals were reduced by 4 percent, but low-income assistance benefits were reduced 7.3 percent (Palmer and Sawhill, 1982:14–15; USCBO, 1983:77). A U.S. Congressional Budget Office (USCBO, 1983:XII) study (hereinafter CBO) estimates that reductions in benefit payments were greatest for households below $10,000, which make up 23 percent of the population. They lost $430 compared with an average reduction of about $300 for those with incomes between $10,000 and $20,000 and about $120–$140 per household for higher income categories.

The Reagan administration made larger changes in AFDC than had been made by all the welfare reform efforts of the 1970s. These changes cut program costs by tightening eligibility through more restrictive gross-income limits and by reducing benefits by raising the tax rate on welfare recipients' earnings. The administration estimated that nationally the AFDC caseload would be cut 10 percent and that 7 percent of the recipients would receive lowered benefits. Actual cuts experienced by the states varied depending on differences in the characteristics of recipients. Households with a working member were hurt most by the cuts.

Most of the cuts in federal spending for AFDC were ratified or passed on to local recipients by states. Only a few states provided replacement funds to those people experiencing cuts (Nathan and Doolittle, 1983:26–30). It is not clear whether people removed from AFDC because they are working will quit their jobs and go back on AFDC, thus increasing costs. One study estimates that only 10–15 percent returned to the rolls within 6–12 months (Nathan and Doolittle, 1983:14–15). A study of AFDC recipients in Wisconsin also finds that work disincentives are small; few recipients left jobs on their own but recipients not working have less incentive to begin work. Reagan's changes have reduced income not work effort. In Wisconsin, the number of recipients living below the poverty line increased from 82.5 to 87.1 percent and disposable income for recipients with earnings was reduced by 30 percent (U.S. Congress, Joint Economic Committee, 1983:445–446). A U.S. General Accounting Office (1984a) study of terminated recipients found that they reported declines in health and nutrition resulting from a loss of eligibil ity for Medicaid and Food Stamps.

The major strategy for reducing Medicaid expenditures was to decrease the federal government's matching share of Medicaid costs, but the actual cuts to states are particularly difficult to measure. Preliminary estimates indicate that only a few states replaced lost federal funds (Nathan and Doolittle, 1983:30–32). This has prompted fears that the United States is moving toward a two-tier system of care in which preexisting inequities in medical care across states and groups will be increased (Champagne and Harpham, 1984:73–76). The longer run effects may be to raise medical costs to those not covered by Medicare and health insurance premiums. Such a shift is only possible while the private sector continues to be willing to accept higher expenditures on medical services. Some employers and third-party payers are now seeking to limit medical costs, which would reduce the possibility of cost shifting.

In response to new authority in the federal statutes, states made administrative changes in Medicaid designed to increase efficiency and cut state costs. Some of these initiatives would undoubtedly have occurred without federal changes and often represented a response to state fiscal strain rather than federal cuts (Bovbjerg and Holahan, 1982; Feder et al., 1982:286).

In 1982, California extensively reformed its Medi-Cal (Medicaid) program, not in response to any national policy, but to contain costs of the $4 billion program ($2 billion state cost). The principal feature of the reform is contracting with hospitals for patient care at flat rates per day. These contracts are estimated to have reduced state costs by $90 million in 1983–1984. Transferring the care of medically indigent adults to counties saved the state $111 million. A study by Blum et al. (1983) of these Medi-Cal changes concludes that medical care for low-income people is deteriorating as access to care becomes more difficult. The number of people eligible for Medi-Cal was down 12.7 percent from the previous year due to tightening of eligibility requirements and increases in the amount of money people must pay before they are covered by Medi-Cal. Patients are delaying seeking care and providers are reducing services offered or stopping to see Medi-Cal clients completely because of the reductions in reimbursements. The study concludes that over the longer term, the initial dislocations could be remedied by desirable structural changes or a stronger economy could lead to the restoration of cuts, but in the short run the problems have been substantial (Bellevita, 1983; Blum et al., 1983:1–8).

Cuts in Foods Stamps, like the cuts in AFDC, involved tightening eligibility for those with other incomes and adding new administrative regulations. Though the cuts were large—5 out of 14 states in the Nathan and Doolittle (1982:33–34) study had cuts of 10 percent or more—the states did not replace the cuts, although nonprofit organizations sometimes expanded local feeding programs. The federal cuts were moderated in subsequent years with the breakdown in the conservative coalition in Congress (Champagne and Harpham, 1984).

Budget authority for assisted housing was sharply reduced in 1981 and 1982, but outlays declined only slightly. Housing assistance was targeted more on low-income households, but increasing participant rent shares in the Section 8 program from 25 to 30 percent of income reduced the subsidy received by 14 percent (Struyk et al., 1983:73). The Nathan and Doolittle study (1983:115–116) had great difficulty in assessing the effects of these changes.

The story of programs that did not face large cuts is just as significant as the story of those that did. Social Security and Medicare underwent fewer cuts and changes than did low-income assistance programs. The political firestorm that resulted when President Reagan proposed to cut Social Security was so huge that the effort was dropped in favor of minimal adjustments merely to keep the program solvent (Storey, 1983:5; Champagne and Harpham, 1984:13,27). Medicare was seen as part of the "safety net" and thus largely inviolate (Champagne and Harpham, 1984:73). Strong pressure from interest groups prevented cuts in these programs and forced budget cuts to be directed at programs for the poor (Greider, 1981). The "safety net" advocated to protect truly needy citizens worked better for the middle class than for those with low incomes.

Operating Grants

Reagan's largest percentage cuts were in operating grants for state and local government services. However, those cuts did not have as much impact as the changes in entitlements, which involved smaller percentage cuts but a great many more dollars. Reductions in operating grants were estimated in advance to be about 25 percent, but the actual cuts varied widely by program. The biggest cuts were in grants for jobs, compensatory education, health, and social services—the pro-poor programs.

Initial evaluations of the distributive impacts of changes in operating grants suggest that effects have been modest. As demonstrated in the pre-Reagan period, changes take a long time to work their way through the system. National cuts are not translated instantaneously into local cuts; changes in national program design do not necessarily affect local program implementation. State and local governments have used three main strategies to minimize disruptions to their routines:

- pass on funding cuts,
- pass through effects and responsibilities, and
- perpetuate old programs.

As a result of these strategies and the existence of federal carry-over funds, the effects of Reagan's changes in operating grants have been smaller than expected. Programmatic and allocational changes that did occur were at the margins.

Employment programs were cut the most at both the state and local levels. These cuts particularly hurt lower income persons, the working poor (the same group most affected by cuts in transfers), and the nonprofit organizations that had been most involved in employment programs (Nathan and Doolittle, 1983:92).

The public service component of CETA was completely eliminated and training was cut approximately 46 percent. Nine out of 14 cities in the Nathan and Doolittle sample lost 25–50 percent of their CETA training funds (Nathan and Doolittle, 1983:20–21). Most states and cities did not replace the lost funds because they viewed CETA as a federal program lacking local political support. (After the 1978 revisions, which had targeted CETA more heavily on the disadvantaged, local governments lost interest in the program and allocated more CETA workers to nonprofit organizations).

The Nathan and Doolittle study (1983:54), however, did identify some cases in which state funds were used to replace lost federal funds. Massachusetts, New Jersey, and California expanded training programs but were careful to distinguish those efforts from CETA. Some cities, too, continued selected CETA services, especially summer youth programs. For example, in Houston, the political strength of minority groups resulted in continuation of summer youth programs. In Chicago, CDBG funds were used to finance a summer jobs programs, and in Boston, city and private sector officials raised money for the program. The cuts also stimulated some changes in services and new emphasis on quick payoffs or low costs, such as job-finding skills and placement services rather than training. Private sector influence in the CETA program also increased (Nathan and Doolittle, 1983:93–95).

State employment services also had major cuts of about one-third, but political pressure from state officials and employees succeeded in reducing the cuts to about 10 percent (Nathan and Doolittle, 1983:54). In 1983, CETA was replaced by the Job Training Partnership Act; funding for the new program was 35 percent lower than for its predecessor, which represented a substantial reduction in aid for the disadvantaged (Baumer and Van Horn, 1984).

Two types of education programs took large cuts: compensatory education (Title I) and the Elementary and Secondary Education Block Grant. Title I was cut 25 percent, concentration grants to counties with high proportions of low-income families were eliminated, and many statutory restrictions regarding targeting on low-income children were relaxed (Nathan and Doolittle, 1983:96). At least 11 of the 14 cities in the Nathan and Doolittle sample passed these cuts on without replacing them with local funds. Some absorbed the cuts by serving fewer students and some cut services per child.

Although the Elementary and Secondary Education Block Grant, which consolidated 29 small programs, was cut 38 percent (Nathan and Doolittle 1983:20), forward funding meant that the effects were not generally felt in 1982, except in those districts that had been receiving large desegregation grants, which were lost in the shift to block grants (Seattle, Rochester, and Boston, for example). Conflicts arose in many states, however, about how funds would be distributed among school districts. Some saw the funds as general support and spread funds evenly according to the number of students in districts; others saw the funds as compensatory for poorer districts and students. Some used formulas that combined the two approaches (Massachusetts, New York, Washington, Mississippi, and Florida, for example).

The education block grant was one of nine block grants initiated by Reagan that decreased funds and increased the role of states in order to improve responsiveness and efficiency. Health block grants were cut 20–35 percent, but carry-over funds enabled states to protect existing services (Nathan and Doolittle, 1983: 38). Where programmatic shifts were made, they were in health outreach, health education, and other services with little short-term impact (Nathan and Doolittle, 1983:41).

The social services block grant had large dollar cuts in most states. Requirements restricting eligibility to low-income individuals and requiring state and local matching were also eliminated (USCBO, 1983:62). More replacement appears to have occurred in this block grant than in others. Six states in the Nathan and Doolittle sample shifted low-income energy assistance funds to social services. Four states replaced lost federal funds with state funds—Massachusetts, New Jersey, Arizona, and New York. Yet despite these shifts and replacements, cuts in this program were still substantial, affecting day care, outreach, and advisory and preventive programs (Nathan and Doolittle, 1983:42–43).

Two other block grants, Community Services Block Grants (CSBG) and CDBG, illustrate the geographic spreading effects of Reagan's programs. Large cuts in CSBG (41 percent) had an immediate impact on these social service programs. Carry-over funds provided only a cushion in 3 states and replacement occurred in only 1 of the 14 states in the Nathan and Doolittle (1983:45) study. States typically shifted funds out of big cities (Chicago's share of state community service funds went from 70 percent in 1981, to 55 percent in 1982, to 40 percent in 1983). Programs changed to services rather than advocacy. Community action agencies in most states had major reductions in funding, staff, and programs. These modifications reflected the fact that most community action agencies had not developed political ties with their state governments (Nathan and Doolittle, 1983:45,50).

Cuts in CDBG were smaller (13 percent), but, as with community services, the proportion of funds going to big cities was also reduced—from 75 percent to 70 percent in the Nathan and Doolittle (1983:107) sample. Regulations requiring targeting on poor areas of the city were relaxed and tighter limits were placed on the use of funds for public services. In addition, the small cities portion of the funds were spread more widely to less distressed cities than it had been when the U.S. Department of Housing and Urban Development administered the program. States shifted programs toward economic development and public works as opposed to housing. And cities expected that they were also going to have to reallocate funds to nonpublic service activities. A decrease in the income and geographic targeting of CDBG hurt the poor and poor places (Nathan and Doolittle, 1983:44, 109).

In sum, Reagan's changes in operating grants had smaller effects than expected primarily due to carry-over funds. States and cities typically delayed making decisions about how to allocate reductions and used pro rata reductions to spread cuts among existing provider groups. They protected their core activities and adapted federal policies to fit their existing organizational and political patterns, passing on the cuts to others (Kirlin et al., 1984). However, Reagan's changes in operating grants did contribute marginally to a decrease in redistribution to poor people and places. Cuts in grant programs, as in entitlements, disproportionately hurt those below the average income level, who lost services (Palmer and Sawhill, 1982:21). Since they were largely low-income groups and minorities, they were not well organized to protect themselves.

Impact on People and Places

President Reagan's position is that the immediate sacrifices entailed by his domestic programs will be offset in the long run by the resulting economic gains (Bawden and Levy, 1982:459). But Bawden and Levy suggest that gains from economic growth will not offset the economic losses policy changes have caused for those with low incomes. Changes in the demographic composition of less affluent groups, particularly the growth in female-headed households, mean that those groups will not benefit as much from economic growth in the future as they have in the past. And economic trends, such as changes in the types of production and employment, may increasingly disadvantage those groups (Teitz, 1984).

Reagan's tax cuts will affect personal incomes in complex ways that are not yet fully apparent. The tax reforms involved a 25 percent reduction in personal tax rates spread over three years, a decrease in tax rates on unearned income from 70 percent to 50 percent, and greater investment tax incentives for business (Palmer and Sawhill, 1982:268,460). These reforms lessen the progressivity of federal tax rates (Palmer and Sawhill, 1982:21 and Hulten and O'Neill, 128).

Most discussions of the tax cuts are projections of effects as opposed to analyses of effects. A CBO (USCBO, 1984a) study projected that the Economic Recovery Tax Act and Tax Equity and Fiscal Responsibility Act combined result in net tax reductions that rise as household income rises. One analysis of 1982 tax returns challenges the CBO projections. Pratt (1984) found that in comparison with 1981 taxes the actual 1982 average tax per return decreased 6.7 percent for those with less than $10,000 adjusted gross income versus 2.7 percent for those with adjusted gross incomes over $75,000. He asserts that the actual tax relief received in 1982 by the highest income group was only one-fourth that projected by CBO. Actual data for 1983 are not available for analysis at this writing, but continuation of the pattern found by Pratt would mean that the Reagan tax cuts had made the federal tax system more progressive in incidence.

Projections of the cumulative effect of program and tax changes find that the poor will lose and the nonpoor gain. A 1982 Urban Institute study (Palmer and Sawhill, 1982:21; Bawden and Levy, 1982:478–480) of the tax and entitlement policy changes suggests the following: The middle class will have a small increase in their after-tax real incomes (2–3 percent). Higher income families will have substantial gains (4–7 percent). And families with incomes below $15,000 will have no change in their after-tax income, with the exception that those receiving benefit payments—particularly those AFDC and Food Stamp families with earnings—will be worse off, experiencing a decline in income levels of over 4 percent. Rates of economic growth will affect these results, however. Low growth would slightly increase the number of families in poverty in 1984 over 1980 but high growth would not (Bawden and Levy, 1982:482–483). A CBO (USCBO, 1984b) study projecting combined effects of tax and benefit changes also suggests that the lowest income group faces a net loss in income, losing more in cash benefits than they gain from the tax changes.

David Stockman, director of the Office of Management and Budget, among others, has challenged the findings of both studies, arguing that increased real incomes due to lower inflation offset the cumulative effect of benefit and tax reductions for those of low income. Stockman also argued that cuts in means-tested benefits did not affect those at or near the poverty line but went to those who had incomes above 150 percent of the poverty line when the value of the transfers was included. From this perspective, the reductions were designed to restore fairness and eliminate the unintended windfall whereby some families at that income level were receiving subsidies and others were not (U.S. Congress, Joint Economic Committee, 1983:629–632).

Recent studies report that the distribution of income has become less equal as the size of the middle class has declined and both the rate and number of people at or near the poverty level has increased in the last few years. Levy and Michel find that the average disposable income for the poorest one-fifth of families has fallen from $7,546 to $5,833, a drop of 9.4 percent when adjusted for food stamps, taxes, and inflation. The Census Bureau confirms that the number and proportion of Americans classified as poor has risen—from 24.5 million or 11.4 percent in 1978 to 34.4 million or 15 percent in 1982. This change reflects demographic and economic trends that started before Reagan; however, Reagan's policies contributed to the increases in income inequality (U.S. Congress, Joint Economic Committee, 1983:449; San Francisco Chronicle, 1983).

Muller's (1982) analysis of regional impacts of the Reagan program concludes that they are not trivial. He estimates that the program reductions equal 1.4 percent of personal income nationally and will range from 1–2 percent in specific states. Increased defense expenditures average $32 per capita, but range from $6 in Arkansas to $80 in California. Tax reductions average $172 per capita but vary from $121 in Vermont to $207 in Texas. Muller (1982:442) concludes:

> Both the tax cuts and expenditure shifts will be unequally distributed among regions and states. The tax reductions will benefit higher income states the most, in particular those in the "Sunbelt" region. The defense outlay increases will be concentrated among a small group of states. The largest per capita losses due to the domestic program reductions will be borne by the Northeast and by low-income southern states. The net result generally will be to widen fiscal and economic

disparities between the more affluent and growing regions of the country, on the one hand, and the poorer and less economically vital regions, on the other hand.

In sum, the dominant policy theory of the Reagan era assumes a much reduced federal role and justifies policies in the name of the common good. Redistribution to the poor is attacked and distributive impacts, except in tax policies, are not explicitly recognized. Costs are given a great deal of attention and used to legitimize program cuts. The cuts are also defended on moral grounds. A belief in social engineering is replaced by a belief in the virtue of work (Glazer, 1984). This theory assumes that enough jobs are available that receiving means-tested transfers is a stigma unless one is truly needy, i.e., aged, blind, or otherwise incapacitated.

In our view, the language base of Reagan's social policies represents a greater change than the distributive impacts. The actual effects of program revisions have been moderated by complex political and economic pressures in the federal system. The language or ideology, even when not fully realized, can be very powerful. It is responsive to the new political constituency that brought the Reagan administration to power—a more conservative, middle class, white constituency located in suburbs, newer metropolitan areas, the South, and the West. Big cities, the poor, minorities, and the Northeast are not part of that constituency. Constituency-building is central to Reagan's New Federalism, as it was to the earlier versions (Mollenkopf, 1983:288; Anton, 1980:121–122).

VARIATIONS IN STATE AND LOCAL RESPONSES TO REAGAN'S PROGRAMS

In both the pre-Reagan and Reagan periods, national programs and economic trends have constrained state and local government responses, but they have not dictated particular policy choices. Subnational governments, after all, are not simply agencies of the national government, but separate governments with their own political dynamics (Kirlin and Winkler, 1984:25).

State and local responses to Reagan's programs have shown substantial variation reflecting their own politi cal and economic contexts. Some jurisdiction replaced lost federal funds, some did not. Some initiated programmatic shifts, some did not. These variations depended on three main factors:

- type of program (the more redistributive the program the less political support it was likely to have so the less replacement occurred);
- the amount of fiscal pressure (the more fiscal strain the less replacement); and
- political ideology (liberal officials were more likely to replace cuts for social programs and protest redistributive programs).

Local government responses were also shaped by the role of overlying governments (Nathan and Doolittle, 1983: 189–204).

Liberal states that were experiencing large deficits just when liberal programs were being cut, like California, simply did not have the financial capacity to fill the gap left by federal retrenchment, but they did try to minimize the negative effects on low-income groups and poor cities by protecting the preexisting grant patterns. Conservative states that were also fiscally pressed, on the other hand, like Missouri, moved quickly to capitalize on the opportunity to decrease redistribution, shifting resources to small towns and rural counties and away from programs serving low-income, predominantly black populations, as happened in Kansas City and St. Louis (Nathan and Doolittle, 1983:47–48).

Considerations of political strategy also clearly influenced initial subnational responses. Officials were reluctant to replace lost federal funds even for programs they valued and even if they had the resources, because they knew this would reduce the pressure on the federal government to restore cuts (Nathan and Doolittle, 1983:193). A great deal of posturing went on initially. Over a longer time period, we expect that the amount of replacement will increase, especially as fiscal conditions in states improve. And indeed, studies of fiscal year 1983 found somewhat higher levels of replacement than studies of 1982 (Nathan, 1984; Palmer and Sawhill, 1984; U.S. General Accounting Office, 1984c, 1984d).

Because states and cities have been frustrated by the volatility of the federal programs, they have adapted programs to fit their own needs and resisted disliked policies. This adaptability partially reflects the fact that even though grants-in-aid provide substantial portions of state and local revenue (25.3 percent in 1982) (USACIR, 1984a: 120), they are not central to state and local activities. Changes in federal programs are peripheral, for several reasons (Kirlin et al., 1984):

- Changes introduced by any federal administration are always quite small compared with the revenue shifts experienced by state and local governments in response to economic cycles and their own decisions to increase or decrease revenues.
- Even in block grants, state and local discretion is limited and subnational governments see the programs as national rather than as their own.
- Federal dollars arrive off cycle for many state and local governments, making them hard to incorporate in routine decision processes.
- Federal operating grants change frequently, so state and local governments minimize uncertainty by various routines that buffer the federal programs from their core programs. As a result, shifts in the redistributive dimension of federal programs are moderated as they work their way through the intergovernmental system.

SPECIAL PROBLEMS OF MINORITIES AND CITIES

We have argued that decreases in redistribution under Reagan have been modest but that cuts have fallen disproportionately on the poor and near poor. We have also suggested that Reagan's domestic policies have been associated with a dramatic change in the dominant-theory base, and that state and local governments have been able to adapt to the changes in policy and theory. However, the human and political impacts have been felt particularly intensely in cities where poor people and minorities are found in large concentrations.

Minorities, particularly blacks, have been affected by three aspects of domestic policies. They have been affected as program clients, as public employees, and as participants in electoral politics. The three facets are related, but important distinctions can be made among them.

Reagan's policies have reduced program benefits received by black clientele. Even small cuts in big programs for the poor, like AFDC, can have substantial impact on minorities. The people who lose benefits, receive reduced benefits, or are out of work put new demands on city services and pressure on city officials whether the services in question are provided by the city or not. Mayor Schaeffer of Baltimore reports that soup kitchens in his city used to serve 70 meals a day and now serve 700 a day. He says that even though he tells people to complain to the federal government or the state, they come right to his office (U.S. Congress, Joint Economic Committee, 1983:402 and 408).

Worries about a permanent underclass are particularly acute in cities. Opinions differ on the size of the problem, but even if there is more movement into and out of the ranks of the poor than commonly believed, a segment of the population is persistently poor. And this phenomenon is particularly acute among blacks and among families headed by black women (Gershman, 1980; Auletta, 1983; Hanson, 1983:16; Duncan, 1984:50). If you also consider those who have recently become poor due to loss of jobs and add the overlay of race, gender, and age, the situation in cities can be explosive. It may be true that a rising tide lifts all boats, but many service providers point out that not everyone has a boat, not all boats are afloat, and more boats are sinking all the time.

A second impact of Reagan's programs on minorities results from changes in public sector employment, which have a disproportionate impact on minorities, particularly blacks. In the pre-Reagan period, expansion of operating grants to state and local governments created public sector employment for many blacks. This was important for their mobility, moving them into the middle class. Between 1960 and 1976 black employment in the public sector increased from 15 to 27 percent compared with an increase for whites of from 13 to 16 percent. While 55 percent of the net employment increase for blacks since 1960 occurred in the public sector, for whites it was only 26 percent. And the figures undoubtedly underestimate the employment effects of programs because they exclude indirectly generated employment in community-based organizations receiving public funds (Brown and Erie, 1981:305–306).

The exact impact of Reagan's programs on public sector employment are hard to determine, but since 1980 the cuts and the recession have led to modest declines at the federal, state, and local levels (total public sector employment declined 1.7 percent between 1980 and 1982). Employment cutbacks in social programs have a heavy impact on blacks because they often were the last hired and thus are the first to be fired. At the federal level in 1981, minorities were laid off at a rate that was 50 percent higher than for nonminorities (Brown, 1982:21–22).

A third aspect of minority experience with the public sector has been in electoral politics. During the past 20 years, the number of minority council members and mayors (and women as well) has grown dramatically (Bureau of the Census, 1984). Blacks and, to a lesser extent, Hispanics have been winning city elections in increasing numbers (Joint Center for Political Studies, 1981). Cynics would note that the new groups entered the governing elite just when city problems were becoming more acute, but the question remains as to what difference Reagan's policies have made for minority officials and vice versa.

Minority elected officials are typically Democrats who support redistribution to the less affluent (Conyer and Wallace, 1976). And since political ideology has been important in shaping local responses to Reagan's programs, it seems likely that local black elected officials will attempt to mitigate negative effects on low-income groups by maintaining targeted services even if that requires increased revenues (Peterson, 1982:196; Glazer, 1984).

A recent study of 10 large northern California cities allows some inferences about the impacts of Reagan's cuts even though it does not directly examine them. The study finds that in the pre-Reagan period social programs facilitated the electoral success of minorities and that minority elected officials made a difference for policy (Browning et al., 1984). National programs generated demand-protest activity and electoral mobilization, which helped liberal coalitions of minorities and whites successfully challenge more conservative, white-dominant coalitions on councils. Dominant liberal coalitions used the programs to promote policy responsiveness to minorities, commonly defined as redistribution. As an example, they tended to target federal programs even when targeting was not required by the federal government. It appears that despite external economic and political limits on cities, minority officials make a difference for policy and that cities with high minority control will be more likely to continue redistributive policies when it is feasible. Since increases in minority influence were partly stimulated by federal programs, it is interesting to speculate whether minority control has been sufficiently institutionalized to withstand the shift in federal policy. The growing proportion of minorities in cities suggests that there will not be a complete reversal of minority influence in local politics, but the absence of supportive federal activities certainly makes the environment more hostile, as do other contemporary political and economic developments (Brown and Erie, 1981:323).

In addition to the three impacts on minorities, Reagan's programs have diminished the position of cities in the intergovernmental system. While urban policy had been a high national priority in the 1960s and 1970s, that is not the case in the Reagan administration. Cities become, in effect, a residual category; urban policy is, even more, the inadvertent result of a variety of other policies not primarily concerned with cities. Distressed cities can no longer expect compensatory attention from the federal government. In addition, New Federalism, by funneling aid to cities through states, increased the cities' dependence on states, thus accelerating the trend resulting from tax-limitation measures (Kirlin, 1982; Gold, 1983). City officials do not believe that savings due to efficiency will compensate for the cuts, that the private sector can provide the best services, nor that states will pursue redistributive policies responsive to the mismatch between problems and resources in cities (U.S. Congress, Joint Economic Committee, 1983:404; USACIR, 1984b:10–13; Marshall, 1984).

KEY ISSUES

This review of distributive politics serves to underscore the difficulty of redistributing resources to the poor even in periods of economic growth. Reagan's New Federalism has, in a period of economic stress, somewhat decreased this kind of redistribution while protecting programs that redistribute upwards, reflecting both Reagan's ideology and the realities of American politics in the 1980s.

Early in the Reagan administration supporters said that his domestic policies would quickly improve the economic position of citizens, including those with low incomes. Opponents said that Reagan would dismantle all the gains of the welfare state. The extreme predictions of both sides—overstated for understandable political reasons—have been proven wrong.

What lessons can be learned from this review of distributive politics? What issues emerge from the analysis? We suggest three:

- The need for variegated policy objectives. Distributive programs benefiting the middle class will continue, but the middle class, along with other affluent groups, should be willing to bear a fairer share of the sacrifices. Perhaps distributive programs for these groups should be limited to socializing risk (e.g., major medical or minimal retirement incomes) rather than major subsidies (e.g., homeownership). Some pro-poor redistribution should, and probably will, continue. The importance of economic growth and expenditure limitations should be recognized and balanced against distributive goals.
- The need for variegated policy means and strategies. The national government should be a partner in efforts to promote economic performance, redistribution, and the socialization of major risks. Recognizing the deletorious effects of centralizing all issues, it should promote state and local capacity to undertake political, service delivery, and economic development activity. Similarly, it should explicitly provide for the use of private (individual, group, firm) energies in achieving public objectives. However, the federal government has responsibilities that cannot be abdicated. If the pre-Reagan dominant theory went too far in seeing the national government as the solution, the Reagan theory has gone too far in seeing the federal government as the problem. It is neither the solution nor the problem, but it is one partner in the enterprise.
- The need to straighten out the language used to discuss distributive impacts. More explicit language concerning the distributive effects of public policies, redistribution, and the value of diverse objectives and strategies would serve to educate the public and diminish the political risk in discussing the beneficiaries of public policy. The old, narrow ways of talking about redistribution have just led to frustration and dangerous dichotomies—redistribution versus growth, affluent versus nonaffluent, national versus subnational govern

ments. Distributive issues must be thought about in more comprehensive, sophisticated ways that increase awareness of the multiple direct and indirect benefits and costs associated with all government activities over time and that promote a willingness to explore various mixes of objectives and strategies.

Addressing such issues will be difficult and the temptation to be narrowly partisan may be irresistible, but 20 years of experience should enable the country to see the strengths and limitations of policies in both the pre-Reagan and Reagan eras. Different theories of social policy have been pursued, however incompletely, and the impacts are there to be examined. Just as the pre-Reagan social policies were judged against their lofty goals, Reagan's initiatives must be subjected to similar analysis. The challenge is to learn from these experiences and adjust goals, strategies, and language so as to make better policy choices and translate them into practices that help or at least do not harm disadvantaged persons and places.

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6

De Facto New Federalism and Urban Education

Robert Andringa

THE CONTEXT

Imagine, if you will, the situation faced by John Smith, principal of a large urban high school, as school begins in the fall of 1984. He is sitting in his office looking glumly at a stack of reports and background papers issued by a host of district, state, and national task forces and commissions over the last year and a half. All of them begin with urgent warnings about America's future, move on to detail the failings of American students and schools, and conclude with broad recommendations for reforming education and thus revitalizing a stumbling economy.

At a very general level, the recommendations make sense: We should modernize the curriculum, improve the lot of teachers, make teaching a more attractive profession, streamline school organization, make the principal an instructional leader, and use technology more widely and efficiently to take advantage of the current interest in education expressed by business and industry. The reports have generated great community interest and have influenced Smith's state legislature to mandate tougher graduation requirements, propose a merit pay plan for teachers, and readjust the state's school finance formula.

Dr. Smith is an optimistic sort of man and is grateful that so many people have become interested in education. He can remember when he wondered if anyone cared at all about what he was doing. For years he wrestled with low pupil achievement, low motivation, high absenteeism and pupil turnover, violence in the halls and classrooms, a rising tide of students speaking obscure languages, teacher strikes, and weak community support.

And all he got was mounting criticism about declining test scores. In the past 20 years he has had to blend into his usual core program numerous pullout programs for disadvantaged students, handicapped students, and bilingual students; he has had to set up remedial courses for teenagers who could not read, make special arrangements for pregnant teens, establish parallel athletic programs for women, and comply with the court's desegregation mandates.

Nevertheless, Smith has managed to begin a modest school improvement program over the past few years. He has persuaded many teachers that their students are capable of learning; he has raised their expectations and tried to give them more control over their professional lives; he has told them he is supportive of change and wants to involve them in more in-service training. He has read the "effective schools" research and even visited some urban schools that have developed effective new programs. If he can persuade the community that he is already making progress toward revitalizing his school, if he can get out from under his paperwork, and if he can prevent the superintendent from forcing him to start all over again in order to comply with all these new recommendations, he thinks he may have a pretty good year. . . .

FEDERALISM AND THE SCHOOLS

This paper began with the imaginary principal in order to place this discussion of federalism in the concrete context of school renewal and reform. Experience over the past 20 years has shown that some arrangements of local, state, and federal responsibilities can help schools improve, while other arrangements can impede school reform and impair the educational process. The challenge for every urban community engaged in school renewal is to find a mix of responsibilities that places the greatest power to effect change in the hands of the most appropriate people and provides the strongest incentives for them to act both in their own interest and in the interest of renewal.

This discussion of federalism includes not only the formal system of federal, state, and local relationships in education but also the informal relationships among different levels of the elementary-secondary education system—i.e., individual schools, districts, intermedi ate units, state education departments, state boards, state agencies, and federal agencies and programs, including, of course, the courts. Only elementary and secondary education issues are discussed; changes in urban policy for postsecondary education are equally interesting but would require a much longer paper.

Finally, the focus is on urban school districts, because they have been the proving grounds where numerous federalist strategies have been tested and refined over the years. Consider the following facts about urban schools:

- Although urban schools serve only 11 percent of all public school students in the country, they enroll almost a third of all minority children (Casserly, 1983). The schools in 23 of the 25 largest cities enroll predominantly minority students—on average, about 70 percent (Bencivenga, 1983).
- The Hispanic share of urban school enrollment has doubled in the past 12 years. Hispanic young people now constitute one-fifth of all students in urban schools. Asian enrollment has tripled in the past decade. One-third of all limited English-speaking students are enrolled in urban schools (Casserly, 1983:5,7).
- Largely for the above reasons, urban schools receive a disproportionate share of federal education revenues. In 1972, they received 21 percent of all federal education revenues; in 1982–1983, the proportion was 15 percent—more than double the average share nationally. Currently, they receive about 21 percent of all Title I-Chapter I appropriations (Casserly, 1983:42).
- Two-thirds of the cities included in the Council of Great City Schools underwent litigation or court-ordered desegregation in the past 15 years. Many are still under court orders involving such things as quotas, busing, human relations training, bilingual education, magnet schools, curricular changes, testing, compliance monitoring, career counseling, school pairing, and staff changes or reorganizations (Casserly, 1983:47–51).

Urban schools have clearly received larger-than-average proportions of federal and state money and, some would say, larger-than-average proportions of headaches related to that money. More important, it is in urban districts that one can see most dramatically the stages through which federal, state, and local relations have moved over the past two decades and the positive and negative impacts of each stage on administrators, teachers, and students.

Formal Elements of Federalism

The formal elements of educational federalism are well known. There has always been a national interest in education and a consequent federal role, from the land grant ordinances of 1785 and 1787, through the Morrill Act of 1862, the Smith Hughes Act of 1917, and on into the past 20 years of very visible federal involvement, which are of particular interest here. It has been both inevitable and appropriate that over the past 200 years the federal government has directly and indirectly influenced where schools should be, what they should teach, and whom they should serve. It has also been both inevitable and appropriate that federal involvement in education has sparked controversy and intergovernmental conflict. As Richard Elmore (1982) and others have pointed out, that is precisely what our federalist system was designed to do.

Our constitutional overlap of federal, state, and local responsibilities guarantees both jurisdictional disputes and a balance of powers enabling citizens to use one level of government to redress the perceived wrongs of another. With its overlaps and vagueness, the system also forces a certain amount of collaboration in the common interest, though this may take years of negotiation and dispute before it materializes effectively. Virtually all federal education initiatives have been framed with an understanding that other levels of government would have to be involved in carrying out the initiatives in some collaborative arrangement.

In the early sixties, for instance, the federal government took major steps to improve access to education for unserved and underserved population groups. Federal policymakers believed that states and communities were not doing an adequate job, particularly with regard to enforcement of civil rights. They believed that federal legislation could both stimulate the necessary reforms and at the same time eventually improve the capacities of states and communities to deal with their own problems. The paramount example of federal "inducement legislation" was the Elementary and Secondary Education Act (ESEA) of 1965.

The ESEA provided three programs designed to strengthen state and local education agencies' capacities by providing money for library resources, textbooks, supplementary educational centers, research, training, and leadership resources. The intent was specifically to grant state and local agencies the autonomy and flexibility they would need in order to improve themselves in their own ways (Elmore and McLaughlin, 1982). Thus, the framers of ESEA viewed it as an intrusive or coercive federal move in the short-term, but as an intergovernmentally collaborative project that would strengthen the lower levels of government closest to the schools while it promoted national education goals in the long-term.

However, for a variety of reasons (see Elmore and McLaughlin, 1982; and Murphy, 1981), the original cooperative spirit of ESEA changed gradually to a more coercive, regulatory, and compliance-oriented approach to states and locals. Whereas the act initially featured a mix of assistance, incentive, and regulatory mechanisms for promoting national policy, it became increasingly regulatory as policymakers attempted to deal with implementation problems, interest-group pressures, fiscal-accountability demands, and unresponsiveness or waste at some of the local sites.

Over the years, various amendments expanded the scope of ESEA and the government published numerous regulations with respect to it. During the 1970s, further regulations emerged, prohibiting discrimination based on sex (Title IX of the 1972 Education amendments) and discrimination against the handicapped (section 504 of the Rehabilitation Act of 1973). The Education for All Handicapped Children Act (P.L. 94–142), passed in 1975, was a highly structured, very detailed act. Controversial recommendations with respect to the education of children with limited English emerged, the Vocational Education Act was amended, the Emergency School Aid Act was revised and expanded, and Titles I, IV, and VII of ESEA were updated several times. Each new act or amendment narrowed the focus of the legislation to improve its effectiveness, but increased regulations and compliance demands at the same time.

Effects of Federalism

Many of these federal programs did eventually strengthen state agencies, as intended. But uninten tionally, they fostered state models that were also compliance-oriented and used regulation as a vehicle of reform (Murphy, 1981). This did not happen everywhere, and where it did happen, it did not happen to the same degree or with the same consequences. But in the early stages of these federal and state programs, the net effect of so many laws, grant requirements, conditions and regulations was to impose on some school systems several more layers of bureaucracy, the cumulative weight of which fell on the individual schools charged with carrying out all the mandates. And although it may have been possible to keep the various programs and regulations apart at higher levels of the bureaucracy, it became increasingly difficult to do so at the bottom of the pyramid. Since urban schools were often the targets of much of this activity, they had to struggle most strenuously with the aggregate effects of it all.

Early research into the aggregate effects of those programs on already overburdened schools established that they did not make the job of education any easier. A Rand Corporation study (Kimbrough and Hill, 1981) found that the programs competed for scarce local funds, imposed administrative burdens, and caused difficult scheduling problems. At their worst, they interfered with education and innovation by:

- interrupting core classroom instruction because they pulled students out of classes, often for most of the day;
- replacing the core program with a new program, usually because scheduling problems made it impossible for affected students to stay in the core program for sufficiently long periods of time;
- presenting students with materials and teaching methods radically different from those found in the core program;
- causing staff conflicts, usually because of differences in teaching approach and the autonomy of the special program teachers;
- imposing heavy recordkeeping burdens upon teachers and administrators —especially in response to P.L. 94–142 and bilingual programs; and
- segregating affected students for large blocks of time.

The Rand study also found that money and staff from funded programs, such as Title I, were often diverted into unfunded programs in order to help defray costs.

More recently, a congressionally mandated study of the cumulative effects of federal education policies on schools and districts, conducted by SRI International (Knapp et al., 1983), revealed more positive developments. The researchers found that the problems documented by the Rand study were being addressed successfully in many schools. Over the years, strong administrators have found ways to minimize interruptions of core instruction that have tended to fragment the educational experience of the affected children. Turf jealousies have been worked out and many administrators have learned how to deal with the paperwork efficiently. "The instances of serious burden seem restricted," they write, "to particular roles and situations: locally paid counselors who take on special education management unwillingly; schools in which the principal has no extra pair of hands to help with the administrative detail; hard-pressed districts facing major, nonroutine challenges attributable to federal policies (e.g., desegregation)" (Knapp et al., 1983:7).

The SRI researchers (Knapp et al., 1983:12) concluded that federal and state policies for special populations "have substantially improved and expanded the array of educational services for the intended target students." In doing so, they have increased the structural complexity of schools and districts and caused problems initially, but over time, people have adjusted to the problems and found ways to make them more manageable. The process has involved trade-offs: Schools are offering more services and receiving more money to do so than they would otherwise, but this has come at the expense of some other programs and introduced an element of inefficiency into the system that may not have been there before. Most of the educators interviewed by the SRI researchers believed the trade-offs were worthwhile. However, despite their generally positive findings, the researchers (Knapp et al., 1983:12) did sound a warning note: "In the sites where strong service mandates are combined with strained resources, the perception of the burdensome aspects of federal policy seems to be growing. Dwindling funds at the local, state and federal levels create problems that are extremely hard to solve."

Given the Rand and SRI research, it would appear that the impacts of federal education mandates have changed considerably over time and have been different for dif ferent kinds of schools. The original intent behind ESEA was both to induce change and to assist state and local education agencies so that in the long run they could generate and manage their own change. But in the early stages that intent was not realized very often in actually carrying out the program. Moreover, the sheer logistics of establishing, administering, and monitoring programs tended to bring technical and administrative concerns to the fore: Where was the money going? How was it being spent? Were target groups actually receiving new services? These kinds of considerations called for compliance incentives and paperwork having to do with the process itself more than the intended product, higher quality education for disadvantaged youngsters.

So, in the early years of these programs, schools were hit with the problems documented by the Rand study—largely process problems—and many people in the schools responded in dismay. Many principals found their authority and scope of action narrowed beyond reason as the school environment grew more complex. The conservative stereotype of an overly intrusive and mindless federal presence did, for a time, have a basis in fact; so did the liberal stereotype of local recalcitrance. But the beauty of the federalist system is that the federal government cannot implement national education policies by itself. Regardless of federal policymakers' suspicions that state and local people will not carry out their mandates; regardless of their efforts to institutionalize that mistrust—they must nevertheless, in the long run, adapt to state and local realities if they want to see the policy implemented successfully. Coercion must eventually give way to collaboration. As Elmore and McLaughlin (1982:192) put it:

> The chief problem with compliance-dominant strategies in vast and variegated systems like the United States is that, while they prescribe uniformity of behavior, they generate enormous variability of response. . . . Because of its tendency to treat all variability as suspect, the compliance-dominant view draws federal policymakers into a steadily deepening quagmire of increasingly detailed rules, exceptions, and discretionary judgments that deal with matters better dealt with at lower levels of the system. Coercive diplomacy breeds its own collapse.

Through the late seventies and into the eighties, a number of factors coalesced to bring about that collapse and mitigate the aggregate impacts of mandates on individual schools. Some obvious ones are these. First, as the SRI researchers discovered, people found ways to simplify, combine, and manage the programs more efficiently each year. Second, evaluations of the programs identified problems and persuaded policymakers themselves to allow for more diversity and more local autonomy in dealing with implementation. Third, because the system forces collaboration and negotiation across different levels, even institutionalized mistrust began to yield to a certain amount of necessary trust. And fourth, the major long-term intent of the sixties legislation—to strengthen state and local capacity—actually began to find realization in more powerful, dynamic and creative state and district agencies capable of dealing with their own problems without federal inducements to do so.

THE GROWING STATE ROLE IN EDUCATION

The discussion so far has dealt only with federal mandates and their effects on districts and schools. Many of these programs have operated through state agencies created and sustained with a portion of the federal grant money, and all have depended in some way on other state agencies, entities, and networks. But the states have not simply been vessels through which other programs pass; they have programs of their own. Moreover, the state role in education has changed considerably over the past two decades. Partly as a result of federal pressures and programs, but also as a consequence of a host of social and economic factors, states have exerted increasing control over schools. In many states, authority has been centralized with respect to such things as textbook adoption, competency testing, and school finance equalization. Almost all states have assumed a greater and greater share of the education budget. In 1963, for instance, the average state share of education expenditures was 39 percent (National Education Association, 1964); in 1983 it was 48 percent (National Education Association, 1984).

This nine-point average rise marks far more dramatic changes in a number of states. California, for in stance, was providing 38 percent of its school funding in 1972; today, it is providing more than 90 percent. Over the past decade, Idaho's state share has gone from about half to two-thirds; Massachusetts' share has almost doubled; Washington State's share has gone from half to four-fifths. Federal funding remained about the same, as a percentage of all funding, but real expenditure for education across the nation doubled from $56 billion in 1972 to $116 billion in 1982 (Doyle, 1984). With this increasing state contribution has come an increasingly active and sometimes intrusive scrutiny of local schools and their programs.

By and large, the increasing state role in education has paralleled improvements in state government and a steady upgrading of states' capacities to deal with matters they once ignored or left to the federal or local governments. Legislators are now better paid, spend more days in session, and are better staffed. State education agencies have been strengthened. For instance, in 1972, state education agencies employed an average of 191 full-time professional staff; in 1982, the average was 273 professionals (U.S. Department of Education, 1983). Governors' terms have been lengthened and their powers broadened. Consequently, states have played much stronger roles in activities once dominated by federal policy. We know a good deal about the impacts of federal programs on the schools; the question now is what will be the impacts of state legislation and regulation on schools during this period of renewed interest in education reform?

States have certainly been active in education over the past few years. Thirty-seven have developed school or district planning or program review requirements; 47 have initiated new curricular development or technical assistance initiatives; 15 have created state-level "effective schools" projects; 38 have mandated statewide student testing; 20 have required competency testing for teacher certification; 16 have raised grade-point requirements for teacher certification; 10 have begun requiring supervised internships for beginning teachers; 7 require new kinds of field experience for teacher candidates; 44 now have state staff development programs for teachers and 31 have them for administrators; 29 have developed new incentive programs for teachers; and more than half of them have raised graduation requirements in the past three years alone (Education Commission of the States, 1983, 1984).

All of the above measures reflect increased state activity with regard to formal mechanisms for influencing education. Many require a certain amount of centralization and varying amounts of recordkeeping, reporting, monitoring, and general communication about what is going on. The 1984 legislative sessions made 1984 a banner year for state education legislation, adding even more to the already impressive list of activities.

Beyond these formal initiatives, states, like the federal government, have dramatically improved their informal means of affecting what happens in schools. Virtually every governor has mentioned education prominently in his or her state-of-the-state address the past two years; many have declared that improved education is their top priority. Some governors, such as Dick Riley of South Carolina, Bob Graham of Florida, Lamar Alexander of Tennessee, and Bill Clinton of Arkansas, have stumped their states, speaking to hundreds of groups and thousands of people in behalf of their education proposals, bringing massive publicity to the schools and engaging enormous public attention. It is a rare principal or superintendent who can escape the public pressure such campaigns generate.

By the winter of 1984, states had formed more than 240 task forces and commissions to address education reform issues and make recommendations for improvement. These task forces have brought new actors into the drama—business and labor leaders, for instance—who have changed the chemistry of policymaking. Although task forces have no legal accountability to anyone and meet for only brief periods of time, they have proven capable of generating enormous publicity of their own (witness the Texas task force headed by H. Ross Perot, which recommended abolishing football!) and of generating both state board action and legislation that profoundly affect the schools.

Some of this state activity was stirred up by the release of the federal government's National Commission on Excellence in Education (1983) report, A Nation at Risk. But much of the activity began long before that report was issued and at least as much was stimulated by the governors themselves, either acting independently or working together on the Education Commission of the States' Task Force on Education for Economic Growth, initiated by Governor James B. Hunt, Jr. of North Carolina. These recent federal and state commissions and task forces deserve special attention in this discussion of federalism because they represent a different approach to educational reform than the approach reflected in the federal programs of the sixties and early seventies. The most obvious difference is that Action for Excellence (Education Commission of the States, 1983), the Hunt task force report, and the other state task force reports are not pieces of legislation, they are reports. They serve largely hortatory purposes: to call widespread attention to problems, stir up discussion, and generate activity. They suggest what kinds of activities might be most productive, but they do not mandate anything. Most of all, they suggest that people at all levels get together, talk about their education problems, and create their own solutions. The call to action is framed in terms of a national problem, but the proposed solutions depend on state and local activity.

Some will argue that this is exactly what the federal government should do: exhort. Others will argue that if there is a national education problem, there should be strong federal action in response, not simply rhetoric. No one will argue with the proposition that this jawboning has had a profound effect on public attitudes toward education and has catalyzed the reform movement even if it did not start it. The fundamental questions raised by all this clamor are these: Will exhortation alone improve the schools? What kinds of state legislation and programs will grow out of the clamor (assuming that little federal legislation will be developed under this administration)? Will the ensuing state legislation and programs benefit from the lessons we have learned about federal programs and from the improved capacity of state and local agencies to implement changes?

OUTLOOK FOR THE STATE ROLE: GUARDED OPTIMISM

At this point the outlook is guardedly optimistic. The need for caution derives from the observation that many of the remedies suggested by high-level task forces and commissions involve traditional "top-down" mechanisms for inducing change. Two decades of research into the change process in schools has finally crystallized in the observation that, as John Goodlad (1983) says, "it happens one building at a time" and involves such intangibles as leadership, a shared moral climate, a school ethos, and a host of idiosyncratic factors in each school (Murnane, 1975, Edmonds, 1979; Rutter, 1979; Cohen, 1981; Sarason, 1982; Goodlad, 1983; Sizer, 1984; to name only major works). Yet despite strong research support for a "bottom-up" model of school reform, and despite the absence of research supporting links between improvement and such things as stiffer certification requirements, higher teacher salaries, or stricter graduation requirements, many states may nevertheless approach reform too prescriptively, as if they were the federal government in the 1960s. If states rely solely on policy mechanisms that either do not touch the factors instrumental to reform or in various ways constrain the creativity necessary for reform, the expectations of so many new converts to the education renewal cause will be disappointed. And if that happens, there will be another backlash against the schools down the road, and it will be harder than ever to muster the necessary broad support for yet another effort in the 1990s.

Optimism must also be qualified by the observation that most of the problems cited in the reform reports are concentrated in urban schools, but the reports' recommendations are not directly linked with either the particulars of urban school administration or with urban policy in general.

One reason for optimism derives from the observation that we have 20 years of experience with the problems of compliance-oriented reform strategies, overregulation, and forced intergovernmental collaboration; we have stronger state and district capacity; and we have usable research findings about the change process. These factors have already altered approaches to school reform in many states and may carry the day. If you look back at the state activities described earlier, you will note that many of them are not top-down mechanisms likely to reinforce a compliance-oriented approach to school reform. Rather, they are assistance-oriented, capacity-building activities, such as those envisioned in the original ESEA. Technical assistance is designed to empower people in the schools, not restrict their freedom to maneuver. Effective school projects are by definition school based, even if they are state sponsored. Internships, field-experience requirements, staff development, and incentives programs all devolve responsibility downward and imply a good deal of trust that the people at the bottom will carry out the spirit of the mandate, if not the letter.

Another reason for optimism is that many states have now developed formal and informal mechanisms for greasing the wheels of intergovernmental relations. Twenty-one states now have intergovernmental advisory groups modeled after the U.S. Advisory Council on Intergovernmental Relations; 15 more states are considering such councils; a number of states—Iowa, New York, Minnesota, Georgia, Virginia, Pennsylvania, California, and Connecticut—have conducted studies of the impacts of their mandates on local institutions and governments (Roberts, 1984).

So the picture is mixed: Some states are indeed developing new regulations and depending on top-down leverage to change schools; some states are deeply involved in assistance and mechanisms for placing the knowledge, responsibility, and trust in the hands of the people closest to the problems; many states are involved in both kinds of strategies and others as well. Finally, we can be optimistic about the leaders in many urban school districts who have shed any appearance of dependence on federal or state initiatives to solve these unique problems and have initiated broadly conceived reform efforts on their own.

EFFECTIVE SCHOOLS

Through the seventies, considerable research was devoted to identifying the characteristics of effective schools, many of which were in urban environments not thought to be conducive to optimal education conditions. In general, the research shows that high student performance results from many different policies and activities, no one of which accounts solely for success or is necessarily transferable from building to building. Student learning depends mostly on people, and people differ greatly in their approaches to education and administration. Nevertheless, effective schools share a number of general characteristics:

- high expectations for student performance,
- strong instructional leadership,
- an orderly school climate,
- an emphasis on basic skills,
- careful monitoring of student progress, and
- a greater sense of control over the learning environment by both students and staff.

Each of these suggests something about how an effective school is run and what kind of people work there; and those factors—the how and the who—suggest something about the administrators' and teachers' freedom to maneuver and make decisions, as well as their relationship to people at higher levels of the bureaucracy. Clearly, all of these factors can be heavily influenced by the quality of the leadership in the school. Strong principals are key. And it is axiomatic that a leader cannot function as a leader in an overregulated environment—such environments appeal only to followers. Leaders need the freedom to lead, which means the freedom to be creative, to make mistakes, to follow through, to win trust, to be flexible, to control resources, and to make decisions without having to clear them with half a dozen people on up the line. There is a sense, then, in which effective schools are almost by definition those schools that have found ways to make leadership possible and ways to accommodate all that follows from the empowerment of leaders in each building at the bottom of the bureaucracy.

Many urban school districts have made great strides in this direction over the last decade. Outstanding ones that come to mind are Atlanta, Pittsburgh, Seattle, Minneapolis, Detroit, Boston, Milwaukee, New Haven, and Houston, but there are many more. Each has found ways to draw in community leaders and parents, to energize administrators, teacher, and students, to apply research on effective schools to its own particular situation, and to use its resources in creative and effective ways.

But urban schools still face formidable difficulties. Achievement in many urban schools is far below national averages. Disproportionately high numbers of urban students are dropping out of school, and the achievement gap between majority and minority young people remains a deplorable educational and social problem. The burdens of poverty, violence, drugs, and despair still fall more heavily on urban schools than on any others. In the years ahead, the federal government will be wrestling with its staggering deficit and is unlikely to be in any position to offer more assistance than it is already giving. Federal, state, and local government will, nevertheless, have to find ways of easing the burdens on urban schools, for urban problems have national, not just local, implications. As they do so, they must find mechanisms, strategies, and relation ships that do not stifle the very process of reform they aim to promote. The key concepts in new intergovernmental strategies must be assistance, incentives, empowerment, trust, and devolution of responsibility to the people in the best positions to make a difference. Denis Doyle (1984:8) frames the issue nicely when he writes:

> Policymakers should be concerned with the financial inputs that make good schooling possible and the outputs that good schooling is meant to produce. How the school transforms those inputs into measurable outputs should be the business of the school, its teachers, and its community. That is the real meaning of professionalism. That is the nature of the practice of law and medicine. It defines and describes higher education. It should define and describe elementary and secondary education.

SOME MODEST PROPOSALS

The following suggestions to urban policy planners in state, county, and city agencies are meant to encourage strategies that combine traditional policy levers with grassroots initiatives:

- Clarify and dramatize those aspects of federal, state, county, city, and district relations that inhibit or frustrate school reform. Examine the unintended consequences of program proliferation and accreted regulations. It may be that a nonprogrammatic agency would be useful as an overseer against the "Babel effect" across an urban district.
- Reshape policymakers' attitudes in the direction of technical assistance, advice, empowerment of local leaders, devolution of responsibility, and away from centralized control and overly constraining regulation. That is easy to say, of course, but hard to do. The best ways are still the old ways: building bridges, developing trust, communicating, forcing people in different spheres to collaborate on a common problem, and so on.
- Create an informal Youth Forum in the larger cities that meets monthly and that includes a lead person from public and private education, law enforcement, welfare,

youth service, the mayor's office, United Way, church youth workers, and the like. Such a group would have no bylaws, formal membership, or dues, but could perhaps have a three-person program committee, including a chairman, to plan the monthly dialogue. The purpose of the group would be to build trust relationships, look at life in the city from the perspective of youth, share information, brainstorm ideas, and encourage collaborative activities that could be developed outside of forum meetings.

- Create incentives—financial or otherwise—for intergovernmental or interagency collaboration.
- Develop contractual intergovernmental arrangements to replace particularly intrusive regulatory arrangements.
- Work for federal matching grants to city schools for education-improvement programs. A city match could come from any source outside the school budget or state funds, and the federal government would match at more than one-for-one. The point is that city revenue policies, businesses, and foundations all need to generate more money for city schools, and they should all have a role in defining how funds could be used. The federal role would be to provide the incentives without having to invest huge sums that lead to many compliance regulations.
- Accept "multiple sloppy measures" of progress and accountability instead of looking for precise, quantitative standardized measures. Much that is important in schools (or in life, for that matter) simply cannot be measured exactly or quantitatively; attempts to do so either drive people crazy or force them to ignore critical factors, or both.
- Develop ways of describing and analyzing the differences between schools and communities as well as the commonalities. There are many roads to school renewal; insistence on only one is neither efficient nor productive.

Beyond the steps people in the formal bureaucracy might take to improve interlevel coordination, much might be done between the schools and other groups or agencies in the community. For many urban young people, school is only one of many "agencies" that affect their lives or offer opportunities for education and training. And there are many nonschool things young people can do for which they could receive school credit.

Ernest Boyer's (1983) High School is only one of many recent books to suggest that community service be a part of the high school curriculum. Others have suggested that entrepreneurs could help urban education by setting up "storefront" learning centers in cooperation with the schools as a way of helping dropouts work their way back in. As the economics of computer instruction become uncreasingly competitive with the economics of schooling, we can expect more private sector initiatives in education. Each such initiative will at the same time broaden the educational opportunities of urban youth and challenge the traditional structures by which federal, state, and city governments have controlled education in the past. As a consequence, federalist, interagency, and interlevel relationships are likely to be changing for some time to come.

The federal government still has a critical role to play. It must, of course, provide strong leadership by setting the agenda, gaining media attention, and convening leaders from many sectors. It must continue to help states deal with special populations; it must vigorously uphold and enforce basic civil rights protections; it must continue to provide financial assistance to low-income students desiring postsecondary education; and it must continue to provide financial support for graduate and professional programs aimed at meeting national work-force needs. It should greatly strengthen its educational research, demonstration and dissemination efforts, and its capacity to provide useful information about school improvement to states and localities. And it must help states learn what federal policymakers have learned about appropriate mixes of incentives, assistance, and regulatory mechanisms.

Any current description of federal, state, and local roles in education must be only a snapshot, and a blurred one at that. The federal government is taking a strong rhetorical approach to school improvement, while simplifying its regulations and passing more responsibility for the implementation of its programs to the states. The states are extremely active in school improvement initiatives and are clearly at a transitional point in the ways they approach education problems: Some are moving more toward centralized solutions, some are moving more toward decentralized approaches, and many are centralizing with respect to some solutions while decentralizing with respect to others. There is a danger that what we have learned from the

1960s and 1970s has not been learned well or broadly enough to prevent some people from repeating past mistakes with overly rigid, abstract, standardized, and constraining regulation or legislation. But there are also signs that some people have learned from history and are taking steps to see that it is not repeated. Moreover, this most recent surge of school improvement efforts was a grassroots movement to begin with; the federal and state hue and cry about education came only after many districts and schools had already built momentum toward positive change. That momentum is the final guarantee that traditional federalist arrangements and interlevel relationships are going to change. They are going to change formally because they have already begun changing informally.

In the last analysis, the keys to improved education lie in leadership, creativity, and having the opportunity to explore alternative solutions to problems. The best solutions are the ones people at the local level have worked out for themselves, not the ones imposed on them by outsiders. This is what research and observation tell us about how children learn. It is what experience has taught us about how schools improve. And it is what we must keep foremost in mind as we struggle to make multilevel systems responsive to the tides of change.

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7

The Significance of the Job Training Partnership Act for Federal-State-Local Relationships

Gail Garfield Schwartz and Kenneth E. Poole

INTRODUCTION

The Job Training Partnership Act (JTPA) changed federal-local relationships created by federal assistance for manpower training under the Comprehensive Employment and Training Act (CETA) to federal-state and state-local relationships. Whereas under CETA, local prime sponsors were funded directly by the federal government, under JTPA, funds go to the states, which are responsible for allocating them, setting up and overseeing the administrative structure, and setting the performance goals that fund recipients must meet.

This switch created a sudden opportunity and, also, a sudden danger. The opportunity was to achieve a new means of control, to coordinate manpower training with related activities, and to channel manpower training efforts where they were most needed or where they might have the highest payoff. The danger was that, given inexperience, the states could not meet their responsibilities. This danger was compounded by the prospect that federal funding would diminish over time and that failure to meet goals would be a state failure, not a local or federal one.

This paper speculates on how JTPA might change state-local relationships and how the new program is likely to influence outcomes that would have positive or negative repercussions in the states. It is based on information from disparate sources, including public interest groups, individuals in charge of JTPA at the state and local levels, and interviews with researchers who are beginning to assess JTPA systematically—and conjecture.

Many aspects of the JTPA program itself are interesting. The program sets up a new relationship between manpower training providers and private business and industry. It requires the linking of training with education and employment services and with economic development. It sets aside certain funds for dislocated workers—those who have had steady jobs in the past—while targeting the bulk of the appropriation to disadvantaged workers, who might never have had a steady job. This allocation in itself raises some interesting questions: Will more effort be spent on dislocated workers than is intended, given that they are generally more politically vocal? Or, will communities that do not have many genuine dislocated workers find ways to use those set-aside funds for disadvantaged workers? The scope of this paper does not allow in-depth exploration of these interesting and important issues. Rather, the focus is on the likely intergovernmental impact of JTPA. Information about clients is presented only as it is relevant to questions about shifts in control, power, and responsibility.

The paper begins with a brief, bare-bones summary of what JTPA is and how it is supposed to work, according to the legislation. Next, the way states and localities are implementing the law, as of early April 1984, is discussed. Finally, some likely scenarios are developed. These are related not only to what states are doing but also to what other organizations, such as the public interest groups that serve the states, are doing and planning.

WHAT IS JTPA?

Title IIA of the JTPA provides funds to train the disadvantaged, and Title III is a grant for training dislocated workers that generally must be matched by the states (U.S. Congress, 1982). The allocation to each state from the U.S. Department of Labor (hereinafter DOL) has been made for the transition period October 1983 to June 1984, as was the allocation for the program year 1984 (July 1984 to June 1985). Funds for disadvantaged workers (Title II) are distributed by a formula that weights equally unemployment, excess unemployment (over 4.5 percent), and poverty. A state's proportion of individuals in each category determines its allot ment. "Hold harmless" provisions ensure that no state receives less than 90 percent of its final CETA allotment, in fiscal year 1984, or the previous JTPA program year, in subsequent years.

Title III funds for dislocated workers are based on equally weighted unemployment, excess unemployment, and duration of unemployment. Only 75 percent of Title III funds go to the states; the balance is reserved to the DOL. A state match is generally required for Title III funds, dollar for dollar, with the exception that forgiveness of match is allowed: 10 percent for every percentage point the state's unemployment rate is above the national average. (Some states receive greater allotments of Title IIA and Title III money per unemployed person than do others, but there does not seem to be a significant difference among the states.)

Unlike its predecessor, CETA, JTPA does not provide for job creation. It expects job creation to occur in the private sector. The strengthening of Private Industry Councils (PICs) is intended to improve the job-generation capabilities of communities.

Who does what in regard to JTPA is explained graphically in Figure 7-1.

The State Job Training Coordinating Council (SJTCC) advises the governor on job training plans, and state liaisons generally work out of the state executive branch. The PICs are appointed by the chief local elected official (LEO). The PICs and LEOs agree on the grant recipients, program administrators, and the planning organization. These agencies can be the PIC, a local government agency, or a third party. The grant recipient receives the federal JTPA funds and is liable for the proper use of the funds. The program administrator selects the contractors and sets performance criteria for the programs.

Virtually no restrictions are placed on how the states exercise their responsibilities and powers. The DOL has taken a hands-off approach; whereas DOL played an active role in CETA, it stepped back and allowed other players to implement JTPA. The DOL finances program-evaluation studies and sets minimum national guidelines, which are not mandatory. In fact, many states have modified them by adding additional restrictions. As a result, there are no uniform national standards, such as wage at placement, cost per person trained and subsequently employed, or entered employment rate (National Governors' Association, 1983a).

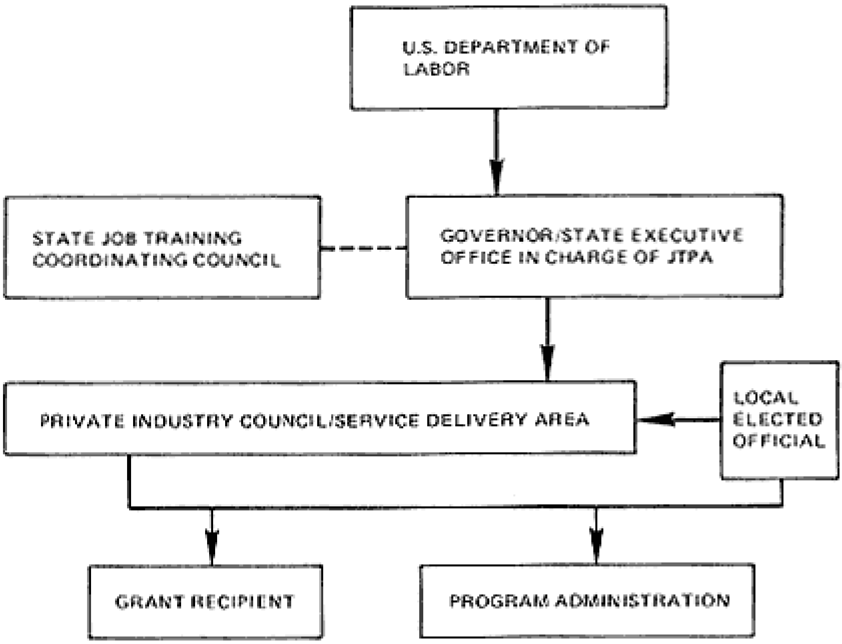

Figure 7-1
Organizational structure of Job Training Partnership Act.

WHAT THE STATES ARE DOING

With few exceptions, "states" means the executive branch. Few legislatures have taken an active part in getting JTPA up and running, and their role has been generally limited to exercising constitutional authority to spend federal monies and other mechanical involvements (Riffel, 1984). Most governors (32) consulted with legislative leaders about becoming SJTCC members, and a few legislatures are represented on the SJTCCs. However, in Kentucky, the legislature established a rival JTPA task force in protest against its lack of representation on the SJTCC. The intention of the National Conference of State Legislatures to help legislatures get more involved is probably too little, too late.

State Job Training Coordinating Councils

Governors, not the executive branch, appoint the mem bers of the State Job Training Coordinating Councils (SJTCCs), which are responsible for monitoring the plans and programs of the Service Delivery Areas (SDAs). Members are drawn from business and industry, organized labor, PICs, LEOs, state agencies and organizations, community-based organizations, educational institutions, special-client groups, the public, SDA administrators, and representatives of apprenticeship programs.

How SJTCCs can effectively discharge their responsibilities is unclear, since only 24 have full-time staff, and only 6 have staff independent of state government. The average SJTCC has 30 members, but the range is from 9 to 55. The larger councils clearly have more trouble operating efficiently. The SJTCCs tend to view their function more as reviewing plans or setting goals than monitoring results or evaluating programs. In a National Alliance of Business (1984) survey, however, 30 SJTCCs said that overseeing JTPA was their primary function and 12 said it was their secondary function. There is no national requirement for representation, method of appointment, tenure, staffing, or performance, so the quality of SJTCCs is undoubtedly far from uniform.

Service Delivery Areas

Governors designate SDAs, with the advice of the SJTCCs. There are 596 SDAs, of which 401 are multijurisdictional, 155 are single-county, and 40 are single-city SDAs. Designating SDAs was a highly political process, since it reorganized the existing CETA prime sponsors as local service delivery entities. The intent of the legislation was to reduce the number of delivery agencies, but the number actually increased by 26 percent. (States are actually grant recipients or program administrators in 48 SDAs, although technically the law limits this role to single-state SDAs. According to the National Alliance of Business [1984], these are predominantly rural states.)

More than 50 percent of all SDAs are exactly the same as the previous CETA prime sponsor (Commonwealth of Pennsylvania, 1983; Grinker, 1984; Pines, 1984; Wills, 1984). The prime sponsors, especially in large metropolitan areas that had received large funding and had a good organization, were uniquely qualified to direct the states in designating SDAs. In Baltimore, for instance, the local prime sponsor also led the successful effort to create a new state agency to administer JTPA (Pines, 1984). Local areas resisted strongly when previously independent, small prime sponsors were proposed by states to be combined with contiguous jurisdictions or consortiums of counties. The SDAs are the geographic units in which planning and delivery of services tailored to local economic, demographic, and labor market needs are carried out by the PICs. These PICs choose the program administrators and the grant recipients.

Private Industry Councils

Every SDA has a Private Industry Council (PIC), the members of which are selected by LEOs with the advice of local businessmen and with the oversight of the governor's office. The chair of the PIC was elected by the PICs in 401 cases and was selected by the LEO in the other 195 cases (National Alliance of Business, 1984).

Members of the PICs are chosen primarily from business and industry in the SDA area, but they also include representatives of labor, government, education, vocational rehabilitation, and the community. The average PIC has 25 members, of which 14 represent business, 2 represent labor, and 3 represent education.

The PICs are the link between the demand for labor and the supply of trained workers instructed under JTPA training programs. They are supposed to help define and quantify demand for specific skills and occupations. Since the federal government is not funding job creation, PICs have a larger role in JTPA than they did in CETA because they are depended on to aid in finding many of the jobs.

According to the National Alliance of Business (1984), business persons are suspicious of job training programs because of their negative memories of the CETA program, but PIC members are changing this negative perception. Other perceptions are that PICs, at least so far, have been relatively uninvolved and have not had a major influence on the set-up of JTPA systems.

Three-fourths of all PIC members are new; only one-fourth had been involved with CETA. Many PIC members have never worked with job training programs before. Even the PIC chairs are often new to job training. This inexperience often results in their deferring to the more experienced local governments.

The PICs role is severely limited by lack of fund ing. Volunteer participation almost inevitably means low-level and sporadic involvement. Only 27 percent of all PICs have staffs, and these are concentrated in the PICs that have program responsibilities. Over 400 PICs do not plan to hire staff. As of late 1983, many PICs had met once or twice, but indications are that they plan to meet about monthly.

Most PICs have limited their activities to general policy direction. The prognosis varies on whether PICs are planning to assume a stronger role in the future and whether they can. The National Alliance of Business (1984) reports that they will and that, therefore, their staffs will probably become larger and stronger in order to carry out the new programs. Some practitioners, however, believe that there will not be enough JTPA funding for PICs to play a vital role. (PICs as grant recipients are discussed below.)

Other Executive Branch Authority

Governors have discretionary control of 6 percent of the JTPA funds allocated to the states. They also can provide incentive bonuses. In addition, governors can determine the disposition of the 8 percent education set-aside of the state allotment, the 3 percent set-aside for older workers, and the 5 percent set-aside for state administrative funds. In some states, these percentages constitute a substantial amount of money, while in others they do not constitute enough additional budget support to warrant an all-out effort to set up the apparatus necessary to control the funds tightly. One way governors can divide discretionary funds is by the same formula used to allocate Title II funds to the states; another way is to divide it equally among all SDAs. And there are other choices, too. The lengths to which governors will go in setting up allocation criteria obviously vary with the amount of money involved in the discretionary fund, and that depends in turn on the original allocation formula. The possibilities are suggested by these figures: Alabama has a $7.4 million discretionary fund to be divided among three SDAs, while Utah has a $1.5 million discretionary fund to be divided among nine SDAs.

The executive branch, in rare instances with the assistance of the legislature, determines the performance standards for both Title II and Title III training efforts. Training is classified in three categories—reemployment, basic skills, and occupational skills—but can be directed toward specific target groups, such as youth, welfare recipients, ex-offenders, and so forth. So far there does not appear to be much dramatic activity in standard setting. Connecticut, Florida, and Mississippi added standards not in the federal guidelines, and 29 states altered the federal recommendations on at least one measure. Guidelines for performance standards are generally being formulated by local governments and reviewed by states (National Governors' Association, 1984b).

The Department of Employment Services, which played a coordinating and informational role under CETA, remains important under JTPA. No major changes under JTPA have occurred, with the exception that employment services are better coordinated with the private sector through cooperation with PICs. The major policy issue raised by some employment services activities concerns the use of unemployment insurance as stipends for trainees. Absent national guidelines, business organizations have opposed this practice and organized labor has generally favored it (National Alliance of Business, 1984). The stipend problem is a key issue, since the lack of a stipend limits the type of trainee who will apply for training.

In some states the coordinating function has been placed in the Department of Economic and Community Development or the Human Resources Department. In Maryland, a new Department for Job Training was formed. In general, however, such agencies do not have any experience in overseeing or coordinating job training services, and this makes them more likely to take recommendations of local grantees.

The Job Training Partnership Act is intended to encourage coordination between education and training and, thus, to involve educational institutions in joint planning and cooperative implementation of training programs. There is little evidence that this has yet occurred on a broad front, however, although lip service is paid to the objective.

So far, results are idiosyncratic. Educational institutions, generally community colleges, receive funds for programs in 31 SDAs, 22 of which are small SDAs with fewer than 300,000 population (National Alliance of Business, 1984). In many places, educational institutions so far have taken passive roles—they provide the facilities and the equipment, but they are not involved in determining the skill requirements, planning the curriculum, selecting trainees, doing the training, or following up on the trainees. Exceptions, such as the Baltimore County, Maryland, community colleges, generally had a close link with the training administration under CETA and were poised to play a leadership role when JTPA was passed (Pines, 1984; Schwartz, 1982a, 1982b).

Congress also intended JTPA to be coordinated with economic development, but this is not yet occurring in any meaningful way in many places. One reason is that the apparatus at the local level that provides training has traditionally been divorced from the organizations engaging in economic development. Professionals in the two groups seldom speak the same language, and they have very different ways of measuring their achievements, especially when economic development efforts are financed locally, not with federal funds.

One result that is becoming evident is the use of JTPA funds for customized job training to induce companies to locate or expand in a community. The result often is the substitution of federal dollars for expenditures the employers would have made anyway, as when JTPA finances training for new hotel employees. There are not data measuring the extent to which this occurs, but many informants verify that it does (Pines, 1984).

At present, state priorities coincide with those of the majority of local elected officials and local grantees. They target disadvantaged individuals, especially youth, and concentrate on coordinating state agencies, rather than on state-local coordination. If state priorities change, there is no telling what the outcome of turf battles might be, since some local grantees possess the power of networks, professional experience, and the ability to shut down the system—to the detriment of the state's reputation. Although coordination among many diverse state-level agencies is the primary responsibility of the states, there are no penalties for failing to achieve a tight system.

Local Grantees

Federal statute does not limit grants to specified types of grantees. Local governments, community-based organizations, local nonprofit training organizations, community colleges, school districts, labor unions, and

PICs are all eligible to receive grants.

As would have been expected, the majority of grantees to date have been prime sponsors under CETA, which is to say, local government. Local government or quasi-governmental corporations constitute 75 percent of all grantees and administrative agencies. The prime sponsors that have been eliminated from the system, according to our interviewees, are those that were not performing effectively under CETA. They tend to be community-based organizations and small prime sponsors. The large urban prime sponsors, by and large, seem to have retained a substantial amount of influence in determining who service providers will be and in directing the efforts of the SDAs and the SJTCCs.

Organized labor has greater opportunities under JTPA than it had under CETA to obtain training funds. Twenty-three states (of 44 respondents) allow labor groups to be grantees (National Governors' Association, 1984b), but there is no information on how many labor groups actually are grantees. Since the sum of PICs, community-based organizations, labor groups, and states who are grantees comes to one-quarter of all grant recipients and administrative agencies, the number is not very large (National Alliance of Business, 1984). Many state laws limit the ability of PICs to receive funds, treating them as private organizations rather than public sector organizations.

Program Results

The JTPA programs are too new to have been systematically evaluated. Moreover, a discussion of program results in the light of the changes in the training delivery system would require a large-scale, comparative study of client-group experiences under both CETA and JTPA—a research effort that, as far as we have been able to determine at this time, has not been undertaken. The following discussion is therefore speculative.

One consequence of the changes from CETA to JTPA is the shift of training activities to those that can be completed quickly. Federal limits on expenditures and the relegation of responsibility regarding income support to the states together favor short-term training. Although JTPA does permit federal funds for "needs-based payments and supportive services" for trainees, there is a limit on how much can be spent for such stipends.

For Title IIA, 70 percent of all funds received must be spent for actual training. This means that program operators tend to limit the duration of training, so that clients can afford to take the time to be trained. It also means that beneficiaries of Aid to Families with Dependent Children are likely to be sought as trainees, because they have other means of support while being trained. Since the federal legislation did not dictate to the states the terms under which unemployed individuals could receive unemployment compensation while being trained, states differ in the way they treat eligibility for dislocated worker training. Some states allow trainees to receive unemployment compensation, but most do not. Only in 13 states are recipients of unemployment insurance exempted from job-search and job-availability requirements in order to enroll in training programs (National Governors' Association, 1984b). The same tendency to favor short-term training exists for dislocated workers, who must first exhaust unemployment benefits before entering training. Thus, for both Title IIA and Title III, making income maintenance partially a state responsibility has the effect of biasing training away from the long-term programs that impart the highest level of skills. One would expect that for disadvantaged workers, it would also tend to keep clients in the two lower levels of training, preemployment training and basic skills training, since it would take a long time before an individual who needs these levels of training could advance to occupational skill training.

The perennial policy choice regarding stipends will never be resolved satisfactorily unless there is enough money behind a training program to train everyone and enough income support to allow everyone to be trained. The choice is whether to cast a net with large holes so that only the biggest fish are caught in it, or to cast a net with smaller holes to capture all the fish in the area. In this case, the large fish are those who can afford training without stipends. The small fish are the other potential trainees, who need the skills, but will not try to get them if they are not supported.

The issue of training is complicated by the fact that some people who would benefit quickly from skills training are likely to be missed if the big-hole net is cast, and some people who do not benefit very much from training are likely to be included if the small-hole net is spread. The JTPA has two expressly stated objectives, which can often be mutually exclusive: to serve those most in need and to serve those that would best benefit from the training. States individually determine who falls into which group. Reality dictates that SDAs try to train workers most likely to satisfy employers' needs and thus there is a tendency to accept "cream" applicants. This is not a function of the devolution of responsibility to states, however, and there is most likely no uniform mix of clients, since each state can determine its own priorities for eligibility.

Speculating on whether cities will be hurt or helped by the current tilt toward limited stipends, short-term training, and "creaming," it is likely that in labor markets where there is a shortage of skills that can be learned in a short time, the net benefits of short-term training will be greater than in areas where there is a surplus of such skills. More communities probably fall into the latter category than the former. Nevertheless, it must be said that in large urban areas, especially where the disadvantaged—and especially minority group members—have not had access to private sector jobs, JTPA could give a leg-up into the work world for a relatively large number of individuals, especially women.

States may provide state stipends, but we have no evidence of states' supplementing federal funds for direct training. Some states, such as New York, use unemployment benefits in conjunction with JTPA training. Only states with comfortable surpluses in their insurance accounts have the luxury of doing this, which excludes some 12 of the key industrial states.

Some observers speculate that SDAs will try to supplement their budgets with local funds. The degree to which such efforts will develop will depend on conditions in the local labor market. It must be remembered, however, that where there are labor shortages or shortages in specific skills, the private sector traditionally accelerates its own training efforts or recruits outside the local labor market. Where there are labor surpluses, the private sector tends to be disinterested in supporting training of any kind. Those who expect the private sector voluntarily to subsidize local training activities in a large way for a general market are probably going to be disappointed.

Client mix is affected by limitations on stipends. The limitation on expenditures established by the federal statute, on the other hand, impinges on states' autonomy and has induced various responses. Since administrative costs cannot exceed 15 percent, service deliverers search for ways to allocate management costs to the training category. Customized training is one way to do this. More commonly, SDAs favor youth programs because they are exempt from the 15 percent limitation.

WHAT IS LIKELY TO HAPPEN?

When one contemplates the bureaucratic inertia that must be overcome to fulfill the hopes for JTPA merely in coordinating training with higher education, general education, vocational education, employment services, welfare services, social services, weatherization and conservation programs, and economic development, <u>in relation to a very diverse and sometimes amorphous client group</u>, one cannot realistically expect much. Yet this coordination goal is one of the most valuable elements of JTPA.

If the program's funding were sufficient, and assured for a long enough period to justify the effort that has to be made to institute this coordination, a major change might be made that is greatly needed at the state and local levels. As it is, it is probably optimistic to expect much real and effective chance.

A second objective of JTPA, to achieve job growth through private sector employment of JTPA-trained individuals, will succeed or fail only with the success or failure of the local economy. The PICs cannot make jobs where employers do not need workers. In areas with a labor surplus, the role of the PIC can be, at best, to replace traditional hires with JTPA trainees. In areas with a labor shortage, SDAs with effective PICs may be able to train marginal workers fast enough and well enough to prevent employers from recruiting outside the community. But this requires successful solutions to the historically intractable problems of the disadvantaged: first, overcoming their reluctance to risk rejection so that they enter training, and second, being able to keep them in training long enough to acquire the entire range of job-ready skills. Without income maintenance, it does not seem likely that either of these solutions can be implemented on a large scale.

Dangers lurk in the larger role given to PICs, too. Firms will have greater opportunity to abuse the program by using JTPA funds to pay for on-the-job or classroom training that they would formerly have paid for themselves. There is no evidence that this is the case, but then again, no one has asked.

These and other abuses can be prevented or at least controlled by state performance standards, which have not yet been widely established. There are good arguments on both sides of the issue as to whether uniform standards are desirable, given the varying economic conditions and wage levels in different parts of the country, and indeed, in different regions within states. The National Governors' Association and other public interest groups are developing their own guidelines for performance standards.

One shortcoming of the legislation that the states do not seem to be dealing with at all is the lack of a requirement for long-term follow-up. In order to determine whether the elaborate mechanisms and complicated organizational structure called for in the legislation are worthwhile, it would be necessary to know the economic outcome for trainees. These outcomes should not be limited to six months, but should be traced for several years so that duration of employment, wages, and upward mobility could be measured. At this writing, neither the DOL, the organizations representing the states, nor other independent organizations have evidenced any interest in this kind of monitoring of the JTPA program.

Although it is certainly common for government to put a low priority on program evaluation, in the case of JTPA it is particularly unfortunate. Regardless of whether there are local or national shortages or surpluses of labor, there certainly will be periodic, and probably frequent, shortages of specific skills in specific places. Whether this complex JTPA enterprise effectively assists to prevent shortages, and whether it does so efficiently, could mean a great deal to communities' growth potential—especially communities undergoing transition to a different industrial or service base. Such places are by no means confined to urban areas, of course, but many large and medium-size cities are among them.

CONCLUSION

JTPA is a good deal more than a partnership: It calls for a sort of public holding company within each state, coordinating many different enterprises that have some missions related to JTPA goals but also have other unrelated missions. There are no federal sanctions if this holding company goes bankrupt.

But the governors do face a potential problem. If the elaborate system is developed, and federal funds are reduced, there will be no way to continue the efforts. If hopes have been raised, states could face the same syndrome that cities faced in 1969 and 1970 when the nourishment of model cities money was cut off but the appetite remained. The SDAs and PICs can avoid taking the blame: they just spend the money. Governors may be able to demonstrate that the federal government is responsible for program cutbacks, but they may also feel pressed to continue programs with state funds, which would cause fiscal problems.

Governors face another potential problem. It is simply that training does not equal employment. The more elaborate the efforts to carry out the integration of state and local agencies in the pursuit of training objectives, the greater the danger that failure to train <u>and employ</u> a sizable number of workers will backfire on the governor's office. The most important linkage, therefore, with JTPA is the linkage with economic development. But the requirement to develop all the other linkages, if heeded, will mean that too little attention can be paid to job creation.

It seems inevitable that some states will find JTPA to be less than a blessing. Cities, on the other hand, will be able to conduct business as usual within the constraints discussed above. Their main problems will arise if there are not enough jobs in their communities for the trainees. If clients become discouraged and drop out or remain unemployed after completing the program, it is local government that will bear the brunt. The JTPA directors with experience are extremely sensitive to this possibility, and many are already worried about the fact that only low-wage, dead-end jobs are available for clients. Over time, especially in large urban areas with large numbers of disadvantaged individuals, there is likely to be pressure for revision of JTPA legislation or new legislation to provide for job creation. This would not occur only if the country entered a period of rapid job growth, so that excess labor was absorbed in virtually all urban labor markets. That event is not likely to occur; indeed, there is likely to be a large and growing labor surplus in many labor markets. The surplus will be greatest at the lower levels of skill, and JTPA may merely succeed in adding to the numbers of low-skilled and semi-skilled workers competing for entry level and dead-end jobs.

From the perspective of cities and their control over their own training funds, it is likely that JTPA is more helpful to them than other options might have been. Given that Congress was determined to abolish CETA, the formula it came up with did protect the cities and the large prime sponsors from losing all they had built up. Had Congress left it up to state legislators to allocate funds, training funds might well have been distributed disproportionally to suburban and rural areas. The metropolitan prime sponsors did remain intact after JTPA and that is favorable to urban economic development and job development.

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8

State-Local Partnership: Problems and Possibilities

John M. DeGrove and Barbara C. Brumback

Some political analysts in the 1930s tolled the death knell for the states when only the central government seemed able to respond to the problems of the Great Depression. Over the past 20 years in particular, the states have outgrown their image as the weak link in the federal system. States have improved their capability to respond to problems through constitutional reform, increasing professionalization, governmental reorganization, and enhanced revenue systems (Warren, 1980). Indeed, the states have improved their capabilities to the extent that the U.S. Advisory Commission on Intergovernmental Relations, hereinafter ACIR (USACIR, 1982:52; hereinafter USACIR) noted that it is the states that "prop up the operations of American government" and predicted that the 1980s would see the states become increasingly important as intergovernmental bankers, regulators, and administrators.

Over the past two decades, the distinctions among the functions of the local, state, and national governments have become blurred. Federal grant-in-aid programs increased state and local dependence on federal funds and made these governments partners in such programs as Aid to Families With Dependent Children (AFDC), Medicaid, or aid to the educationally disadvantaged, in which the costs were shared with the federal government, the program administered by the state or local unit, and the program goals and acceptable operations determined largely by the national government. It can be assumed, then, that the problems those programs were designed to address were largely perceived as national issues requiring action by the national government in partnership with state and local governments.

President Reagan's national urban policy makes it clear that this perception has changed. One of the principles of this policy is "that the states and cities, properly unfettered, can manage themselves more wisely than the federal government can" (U.S. Department of Housing and Urban Development, 1982:1; hereinafter USHUD). The President's New Federalism is an attempt to realign the federal system, to return to state and local governments those programs that the administration views as having local or state, not national, benefit. The merging of 57 categorical grants into 9 block grants passed through the states is but the first step in the planned reordering of the functions of the federal system (USHUD, 1982). The states play a role of increasing importance as managers of intergovernmental aid programs in the nation's revised domestic policy, and in this new role the states can be seen as the fulcrum of the New Federalism.

This paper sets forth the view from the states and discusses their evolution in the federal system and the prospects for a continued strengthening of the state-local partnership. The paper focuses on the experiences of eight states chosen from the ongoing studies of Princeton University's Urban and Regional Research Center, which has been monitoring the responses to the New Federalism in a sample of 14 states and cities. The paper explores the experiences and initiatives of eight states in attempting to forge a new partnership with local governments. (The next paper in this volume examines the same subject from the perspectives of a large city in each of these eight states.)

Much of the information for this paper was generated through telephone interviews with, and the 1982 field reports of, the field associates responsible for the data on the states' responses to the New Federalism for the Princeton study. We wish to thank Richard Nathan and Fred Doolittle for their assistance and for making the data available as well as for providing us with the 1982 field reports. We are also indebted to the field associates of the 1984 study—Charles Orlebeke (Illinois), John Kirlin (California), Lane Rawling (Washington), Steve Steib (Oklahoma), Richard Roper (New Jersey), Susan MacManus (Texas), and Ed Montanaro (Florida), Lance deHaven-Smith (Florida), and Allen Imershein (Florida)—for their assistance.

Responses to the New Federalism can be expected to vary among states. But the states are now in a better condition to manage their expanded role due to the enhanced capability of all three branches of state government that has been achieved over the past 25 years. State legislatures, both more professionalized and representative than ever before, have increased their oversight responsibilities through such measures as the appropriation of federal funds coming into the states and sunset legislation. State court reforms, which focused on streamlining court structures, bettering management and administration, and improving the quality of judges, have resulted in enhanced state court systems. Reorganization of the executive branch, an effort nearly all states have made to some degree, shows the states are willing to break with the past in efforts to modernize the workings of state government (USACIR, 1982). In addition, state responses to the needs of local government, including increased financial assistance to local units, the development of urban strategies in some states, and the establishment of a variety of programs that are targeted to distressed areas, indicate that the states are now in a better position to respond to the needs of local government.

STATE-LOCAL PARTNERSHIP

The Finances of the Partnership

In their role as intergovernmental bankers, the states provide the greater share of aid to local governments. Between 1971 and 1977, a time of rapid growth in federal-to-local aid, net state aid to local governments rose 72.4 percent. During this period, federal aid to local governments rose 143.4 percent, nearly twice the growth rate of state aid. Yet despite the increase in federal aid to local governments, in terms of actual dollars, state aid to local governments, excluding passed-through federal aid, topped federal aid by over $19 billion (USACIR, 1982).

Some of the "traditional" state functions, such as education, highways, welfare, and health and hospitals, have received the bulk of state aid to local governments. Although these functions respond to statewide needs, some of the functions, notably welfare and education, are among those that Wolman (1984) has termed "implicit" urban programs in that they are not confined to urban areas but are seen as having an "urban" orientation. In addition to being the primary financier of these services, states have also increased the amount of funds passed on to local units for general support, and the ACIR has identified 23 states as having some form of state-local revenue sharing (USACIR, 1981, 1982).

State fiscal systems have undergone dramatic reversals over the past decade. In the mid-1970s, many states enjoyed large cash reserves. Particularly after the approval of California's Proposition 13, movements to control future growth were initiated, and legislative or constitutional curbs on increases in state spending or taxation were developed in 19 states. Between 1978 and 1982, taxes as a proportion of income dropped in 44 states as a result of changes in the states' effective tax rates. Severance taxes alone rose during this period (Gold, no date). Even during this spate of tax cutting, state aid to local governments was the greatest element in state budgets.

A strong state fiscal system is necessary for the continuation of any meaningful aid to local governments, but the tax reductions of the late 1970s reduced the fiscal resilience of the states. When these tax cuts were combined with the poor economic conditions that stretched from 1981 to 1983 and with the cuts in federal aid, in January 1983, 47 states found themselves short of the estimates that had formed the bases of their budgets. These shortfalls totalled nearly $8 billion. After three years of tax cutting, states moved to reduce expenditures and raise taxes (Matheson, 1983). Only three states have not passed a significant tax increase over the past three years (USACIR, 1984). In 1981 and 1982, state legislatures enacted measures designed to garner at least $8 billion annually in tax yields. Tax Foundation (1984) surveys indicate that in 1983 the states enacted measures that would add an additional $8 billion a year.

It is not surprising, then, that the growth in state aid to local governments has been uneven over the past few years. The Joint Economic Committee surveys (U.S. Congress, Joint Economic Committee, 1982, 1983) found that in 1981, reversing the previous year's trend, state aid had increased over 10 percent, making it one of the fastest growing portions of city revenues. In 1982, state aid was up only 2 percent on the average, but in 1983 state aid to cities was expected to have risen more than 7 percent overall.

Whether the states' recent moves to raise taxes signal an end to the tax-reduction movement is not clear, however. Florida voters were to decide on a constitutional amendment that would have limited all government revenues to the 1980 level while restricting any revenue increases to two-thirds of the change in the Consumer Price Index. But the state supreme court struck the amendment from the November 1984 ballot, declaring it to be unconstitutionally broad. A poll by Florida's largest newspaper found most voters disapproved of the revenue-limitation measure. In fact, 67 percent of those polled indicated a willingness to pay more taxes to improve public schools (Miami Herald, 1984). Nonetheless, the political mood is justifiably cautious, and in April 1984 the governor's "state of the state" address proposed no new taxes but also offered no new tax reductions.

State Community Assistance

Aside from state financial aid to local governments to help fund certain "traditional" services and the institution of state-local revenue sharing in some states, states may undertake other initiatives that can be crucial to the continued strengthening of the state-local partnership. These initiatives include the formulation of an urban policy, the development and implementation of policies and programs that target assistance to areas of need, the lifting of restrictions that inhibit the local government's capability for self-government or taxation and taking steps that improve local government capability.

One step in the state-local partnership that several states have taken in recent years is the development of a policy or strategy to address urban problems. The National Academy of Public Administration undertook a series of 10 case studies of state urban strategies. Strategies were defined as stemming from an articulated framework with expressed goals and policies that were implementation oriented and designed to deal with the issues of community growth, development, or decline (Warren, 1980). Eight of the states were found to have or to be developing an urban strategy that met this definition. The formulation of an urban policy is a fairly recent innovation, with the oldest effort studied dating back to 1973, when the Oregon legislature formally adopted that state's growth management initiative (Warren, 1980). A 1981 review of these initiatives found them to be, by and large, still in force, with some states passing new measures. In both Florida and Massachusetts, the strategies that had been developed continued under the leadership of newly elected governors. In California, however, state revenue reductions and legislative balking at funding urban improvements slowed the implementation of many of the elements of the state's strategy (USACIR, 1981).

State-funded programs that address urban problems exist in many states in the absence of an overall policy framework. The ACIR identified 19 "targeted" programs in 5 policy areas in which states can aid their distressed communities. All states had adopted at least 1 of those programs as of 1981, but no state had adopted more than 15. Of course, states and urban areas vary in their need for these targeted programs and in their willingness to adopt them, and the programs themselves vary greatly from state to state. Nonetheless, the record shows that some states are moving to address the problems of distressed communities on their own.

In the housing area, as of 1981, 47 states had established housing finance agencies, and 31 states had housing rehabilitation programs that utilized grants, loans, or tax incentives. In economic development, 16 states direct state aid for industrial or commercial development; 11, for the development of small businesses; and 11 states target industrial revenue bonds. Sixteen states focus capital improvement programs on distressed areas, and 14 states operate neighborhood improvement programs. In the area of fiscal and financial management and assistance, 14 states instituted mandate reimbursement; 35 states had made moves to improve local access to credit markets through such measures as validating municipal bonds, guaranteeing municipal debt, or establishing bond banks; and 36 states had authorized local governments to levy either sales or income taxes (USACIR, 1981).

Despite these innovations there are many deficiencies in state aid programs. The Joint Economic Committee's survey (U.S. Congress, Joint Economic Committee, 1983) found that state aid to the nation's largest cities had declined over 3 percent in 1982. The states' housing programs have focused on single-family housing, leaving the development of multifamily housing largely dependent on declining federal dollars. The economic development activities of most states are not targeted to areas of need. In the community-development policy area, there were only two types of programs, capital improvement and neighborhood improvement (USACIR, 1981).

States can do much to improve local capability to address urban problems. In this area, the states' record has been strongest in programs that neither require the dedication of substantial state revenues nor constitute the total freeing of restrictions on local governments. For example, 24 states have permitted tax-increment financing, a tool most used by larger cities to help pay for the capital projects associated with large urban development. In addition, while many states have some restrictions on the investment of local revenues, approximately 20 have local investment pools that enable local governments to reduce idle cash balances. These pools tend to be most beneficial to smaller governmental units, but they represent an important step in allowing local governments to find new revenues (Roberts, 1983).

One of the frequent criticisms of the states in their role in the partnership has been that they unduly restrict the authority of local governments. This criticism is justified to a great extent. As of 1981 cities in nearly half of the states did not have home rule. States have also taken measures to restrict local revenue-raising potential. Local property taxes have been limited by some state measure in 36 states, and, while most states authorize local governments to levy either a sales or an income tax, only 6 states authorize the levying of both taxes (USACIR, 1981).

The New Federalism provides new opportunities for determining if states have loosened their hold on local governments or are taking other measures critical to the establishment of a strong, effective partnership. First, in their new role as the initial recipient of block grants, states have the opportunity to pass along increased flexibility in reporting and application requirements to the recipient local governments. Second, in response to the cuts in federal funding levels, states may respond by replacing lost federal dollars or by allowing local governments greater flexibility to raise revenue in order to replace those cuts. Finally, states may develop or revise other policies and programs in an effort to forge improved state-local relations. Eight states' responses to these opportunities are explored in the next section.

THE NEW FEDERALISM: EIGHT STATES' RESPONSES

The eight states chosen for this analysis provide a range of experiences in the level of replacement of federal funding cuts, political culture, fiscal capacity, and geographic location. Of the eight states, two are located in the Northeast, one in the North Central region, three in the South, and two in the West.

Elazar (1972) has identified three types of political cultures, which represent an aggregate view of government and politics: individualistic, moralistic, and traditionalistic. The individualistic political culture views government as being established solely for utilitarian purposes. The concept of the market place dominates the individualistic political culture in that government is seen as fulfilling the demands of the people with the least possible intervention in the private sphere of interest. In the moralistic political culture, government is seen as a means for achieving public betterment, and government activities can be initiated for the public good even in the absence of broad public demand. The chief goal of the traditionalistic political culture is the maintenance of the status quo, with political power concentrated in the hands of established elites. Permutations of political cultures, for example a blending of individualistic and moralistic, occur more often than do "pure" cases; apparently in politics, as in nature, things occur most often in combined form. Of the eight states, only two have a "pure" political culture.

There was great variation in the level of replacement of federal funds; one of the eight states replaced 25 percent of the federal funding cuts with state dollars. Other states experienced a net savings of state funds as a result of the federal cuts (Nathan and Doolittle, 1983). The three traditionalistic-individualistic states, all in the South, run the gamut on the replacement of lost federal funds. The eight states, their political cultures, and their level of replacement of federal funds are shown in Table 8-1.

The eight states' fiscal capacities and willingness to raise revenue vary greatly. According to the ACIR's study (USACIR, 1983) of the states' tax capacity, the two northeastern states in our study, Massachusetts and New jersey, have tax efforts that exceed their capacity. For Massachusetts, this has been a historical pattern that has held since 1967, and perhaps it reflects the state's moralistic overtones in its political culture. New Jersey's tax efforts began to exceed its tax capacity, as defined by the ACIR, in 1977, but the trend has held through 1981. For the first time in almost 15 years, the ACIR found Illinois' tax effort of 105 had exceeded its capacity, but that capacity, which had remained fairly steady, between 114 and 112, had dwindled to 104. (The ACIR's index of tax capacity is a fiscal yardstick that measures a state's capability to raise revenues, so that one state's tax base can be compared with that of another, regardless of the actual types of taxes levied. The tax effort indicates the actual burden of the total tax base, with 100 being the national average.) Thus, Illinois' tax effort of 105 is 5 percent above the national average. California had taxes that exceeded its capacity in 1975 and 1977. In the wake of 1978's Proposition 13, the state's tax effort declined. Although the state's tax effort remains below its capacity, the effort has clearly increased between 1979 and 1981. Washington State, with a tax effort of 97 and a capacity of 103, was close to capacity. The lag between effort and capacity is greatest among the three southern states. The institution of new programs may be restrained by these states' traditionalistic-individualistic political cultures, which may explain the gap between tax effort and capacity.

TABLE 8-1 Political Cultures and Levels of Replacement of Federal Funds in the Eight States.

	LEVEL OF REPLACEMENT		
POLITICAL CULTURE	High	Some	Savings
Moralistic/Individualistic		California	Washington
Individualistic & Individualistic/ Moralistic	Massachusetts	New Jersey	Illinois
Traditionalistic/Individualistic	Oklahoma	Florida	Texas

The economic conditions of these states have under gone great changes in recent years, to the extent that a medievalist could easily conceive of the states' economies as strapped to "fortune's wheel" in that those that were up have been cast down. Oil-rich Oklahoma experienced little fiscal pressure in 1981, but the petroleum industry that had helped boost that state's economy, sagged. By the beginning of fiscal year 1983, Oklahoma was in trouble. Revenues from sales and severance taxes and interest dropped to the extent that the state's Omnibus Budget Bill cut appropriations by $152 million (Kerr Foundation, 1983). Texas is also now suffering economic woes, and its sales and severance tax revenues have dwindled. In New Jersey, Massachusetts, and Illinois the picture is brighter than it has been in recent years—unemployment is down and state revenues are up. In New Jersey, the big controversy now facing the governor and legislature is how large the state revenue surplus will be. The improved economy and increase in state revenues is largely explained by the ending of the recession. Washington State has been slow to recover from the effects of the recession, since increases in construction activity have yet to fully boost its wood products industry, and the state's agricultural sector has not been strong of late. Temporary tax increases have improved state revenues, however. Florida's improved fiscal condition came about largely as a result of increases in the sales, motor fuels, alcoholic beverage and corporate income taxes. The sales tax increase alone brought in more than 10 times the revenues the state lost through the cuts in federal spending.

The combination of the federal cuts and the recession forced state leaders to make hard decisions. In both Illinois and Washington State, the focus was more on the effects of the recession on the states' economies than on the federal cuts. Many state leaders seemed to see themselves in a crisis situation, and many state policies reflect this perception. Massachusetts reacted to the devastating effects of Proposition 2 1/2 by increasing state aid to local governments at the expense of instituting additional policies in response to the federal cuts. New Jersey instituted state aid to 28 cities to enable the cities to avoid the layoff of police and firemen.

Block Grants and the States

In regard to federal block grants, most states have assumed most of the available block grants. The Primary Care Block Grant was the least likely to be assumed by the states; since federal funds were unavailable for state administration, there was little incentive to assume this grant.

The pattern of assumption provides an interesting window into state politics, for political motivations naturally affected the state posture. For example, Illinois' Governor Thompson, a strong Reagan supporter, moved for the assumption of all block grants to put the state in the forefront in responding to the New Federalism. In 1981 the Governor of Texas was also a firm Reagan supporter, but unlike Illinois, Texas did not move to assume all available block grants as a show of support. Texas has generally favored the President's policies and the concept of limited government. There is also the sentiment, however, that the state has not fared well under federal grant distribution, a feeling affirmed by studies showing that Texas citizens pay more federal taxes but receive less grants than any state. As a result, many Texans felt the state should restrict its participation in federal programs. This sentiment was reflected in appropriations language passed by the legislature in 1981, affecting fiscal years 1982 and 1983, which did not permit the state to operate a program that had not already been authorized or appropriated. This language, in effect, prohibited Texas from assuming the Community Services, Small Cities Community Development, and Primary Care block grants (MacManus, 1982). Since that time, Texas has picked up both the Small Cities Community Development Block Grant (Small Cities CDBG) and the Community Services Block Grant (CSBG).

In California, party politics played an important role in that state's decision to phase in the assumption of block grants. A legislative block grant advisory committee was established to recommend a block grant strategy, and their recommendations in 1981–1982 were included in the conservative strategy passed by the legislature. That strategy included the initial assumption of two block grants, Social Services and Low Income Energy Assistance Program (LIEAP), and the deferred assumption of all remaining block grants but Primary Care, which was not picked up by the state. This decision to wait was based on fiscal and political considerations. On the fiscal side, the estimated $500 million that would have flowed into California from the block grants was not sufficiently enticing when compared with the state's $25 billion budget. The political possibilities of deferring the block grant assumption proved more attractive. For California, with its budget under stress, taking over these block grants included assuming most of the cuts in funding. The Democratic governor and largely Democratic legislature preferred having these programs and their funding reductions under federal control, channeling any public outcry to Washington, D.C.

The Florida decision not to assume the CSBG as soon as it became available was also partly based on political considerations. There, legislative appropriations committees felt additional study was needed, since the state had little programmatic experience in the areas included in the CSBG. This cautious viewpoint dovetailed with the feelings of many state officials who did not care to be associated with the budget and service reductions under the block grant in an election year.

The states have made allocation, programmatic, and regulatory changes in the block grants they have assumed. Three of the eight states have modified the allocation of CSBG funds in such a way that major metropolitan areas receive fewer dollars than before. Washington State is attempting to alter CSBG's "urban bias," and while this change may be viewed by some as more equitable, Seattle and Tacoma have experienced even greater reductions in programs as a result. Illinois and Massachusetts have also modified the CSBG grant-allocation formula, and in both states the formula change has resulted in less community services funds being made available to their largest cities. Chicago had received 70 percent of the community services funds in Illinois, but under the revised formula, which is keyed strictly to poverty population, Chicago now receives 40 percent of the state's CSBG funds. Despite the reduced funding levels, some areas in downstate Illinois now receive more CSBG dollars than ever before due to the state's changed formula. Boston's major Community Action Agency lost $1 million as a result of Massachusetts' revised allocation formula. Texas, in contrast, recently modified its allocation of funds to target distressed areas.

In terms of programmatic changes, Illinois is attempting to increase the impact of CSBG funds by emphasizing programs that have proven effective, particularly in refunding decisions, and by putting a priority on housing and job-creation programs for low-income people. New Jersey has changed the focus of the Small Cities CDBG to emphasize economic development rather than housing rehabilitation, its previous focus (New York Times, 1984). Massachusetts instituted management reviews of agencies that had administered the fuel-assistance program in 1981 before deciding who would administer LIEAP in 1982. Florida approached its health and social services block grants and their funding reductions by attempting to maintain programs that had been successful and that met recognized needs, such as care for emotionally disturbed adolescents. In California and Oklahoma the block grants remain unchanged in any significant way except, of course, for the reduced funding levels.

Some states have passed along some of the increased flexibility associated with the block grants to the recipient local governments. Where it exists, the increased flexibility is related to decreased reporting requirements or eased application processes, but the record in this area is mixed indeed. California eased SSBG regulations in the first year only to tighten them in the second year. Many recipient organizations are maintaining old reporting activities in case they will be needed later. Florida decreased some of the reporting requirements under the health care block grants and provided for the consolidation of budgets, but a statute passed in the last legislative session increased both state and county control over local (county) health units. Chapter 83–177, Laws of Florida, requires that local health units enter into contracts that are negotiated and approved by the county commissions and the district office of the state Department of Health and Rehabilitative Services. The contracts must include all funding sources and the services to be provided. Without justification, the health unit cannot deviate more than $5,000 or 15 percent from the planned expenditures. A similar contracting requirement was instituted under the state administration of the CSBG. The result of these contracting requirements is to place greater importance on local planning capabilities and data bases.

In assuming the block grants, the states had the option of replacing lost federal dollars with state dollars. Since 1982 the trends in replacement have changed somewhat, but the overriding factors that seem to affect state replacement are the availability of state revenues and the political climate. Oklahoma and Texas provide interesting counterpoints for exploring this argument.

In the first year, Oklahoma replaced over $16 million of the budget cuts, and Texas experienced a net savings. Both states had sufficient cash balances to absorb all the federal cuts. The state economies, with strong petroleum industries, were healthy. Both states have traditionalistic-individualistic political cultures and fairly conservative spending philosophies. But Texas was essentially prohibited from replacing the federal funding reductions due to language in the appropriations bill it passed in 1981, which required that federal funds be used to replace state funds whenever possible and that the federal-state match be kept constant. In short, federal shortfalls in Texas were not to be made up due to a specific legislative prohibition (MacManus, 1982). Essentially, both states had the dollars with which to replace the cuts, but Texas, given the restrictive language in the 1981 appropriations bill, was unable to use them.

Declining activity in the petroleum industries and rising state unemployment hurt both Texas and Oklahoma in 1984, but the states' responses to these changes show that they were attempting to address their own problems more than they were attempting to replace lost federal funds. Oklahoma's replacement is not likely to recur, but the governor is proposing tax increases, mostly for increased funding in health care and education. The leadership in Texas has changed greatly since the last election. Reapportionment resulted in one-third of the state legislature being replaced with new members. Both the newly elected Democratic governor and the new legislators are responding to constituencies of minorities, women, and low-income groups. Welfare payments have been increased at a time when the state was under great fiscal pressure, and a two-year, $3 million relief fund was established that, at least in its first year, is targeted to the high-unemployment valley near the Mexican border.

Recent State Initiatives

Since 1981, nearly all the states have taken actions that affected the state-local partnership. Most often, this action took the form of some sort of fiscal relief to local units, and when the fiscal relief entailed a lifting of revenue restrictions, it was most often specific rather than broad based. In Massachusetts, California, and Florida the state's provision of increased financial aid to local governments represents a shift from the politically unpopular property tax to state-generated revenue. In 1982 Massachusetts provided an additional $265 million in state funds to local governments, hurt by Proposition 2 1/2's effect on property taxes (Bradbury, 1983). California, in addition to assisting local units whose tax revenues shrank in the wake of Proposition 13, has assumed a larger share of education financing for kindergarten through grade 12 and, through an initiative on June's ballot, is considering using its bonding authority to aid counties on specific projects. Other uses of the state's bonding authority have been recently proposed in California, and the success of the June initiative will help determine if they will be pursued. Florida shared half of the proceeds of its additional 1-cent sales tax with cities and counties, with the provision that a portion of those funds be used to reduce property taxes in the first year and that growth in property taxes be restricted over the next two years.

Some states have also granted local governments the ability to generate additional own-source revenues. Massachusetts, Florida, and Texas have taken this initiative. In 1983 Massachusetts would have been unable to duplicate the assistance to local governments it had provided in 1982. The state then examined mechanisms—short of increased taxing authority—that would grant local governments greater latitude in raising revenue and loosened some restrictions relating to local fees and charges (Logalbo, 1982). Florida modified and increased its motor fuel tax and, at the same time, granted counties the option of increasing that tax. Texas granted counties the authority to add $5 to the cost of motor vehicle registrations and transit authorities the ability to add 1 cent to the local sales tax.

In 1982, 59 percent of New Jersey's budget went to aid local governments, and in that year the Community Development Bond Act was approved. That act had three parts: $45 million for local community development projects, $30 million for public works projects (such as cultural centers), and $10 million for industrial parks (New York Times, 1984). These funds, when the bonds have been sold, will be available to 46 identified dis tressed or potentially distressed cities.

Other state initiatives affecting the partnership represent responses to specific problems or areas of state or local concern. New Jersey, the nation's most urbanized state, has taken other actions with respect to its cities. The State instituted an urban enterprise zone program, and Governor Kean has proposed the establishment of a state transportation finance fund and an Urban Development Corporation, which would coordinate state agency actions in an effort to rebuild cities. Oklahoma became more active in funding water projects for local units. Illinois has provided a $75 million operating subsidy for the transit authority that serves the Chicago region, an action arising from one of the mayor's few attempts to lobby for state assistance.

POLITICS OF THE PARTNERSHIP

A certain amount of tension characterizes state-local relations in many areas in the 1980s. This tension centers on the distribution of funds, the ability to raise own-source revenue, and the mandating of programs. Several major cities in the eight states perceive themselves as hurt by the states' block grant policies. In Washington State, for example, larger urban areas have viewed certain basic services as the responsibility of the state, since the state limits their revenue-raising power. The trend in three states to spread block grant funds, particularly CSBG funds, has contributed to this perception. Texas provides a notable exception to this pattern. Texas cities feel the state, not the national government, is better able to respond their needs.

Several cities, including Los Angeles, Newark, Tulsa, and Seattle, have attempted to increase their own-source revenues, but when these initiatives require state approval, they are often denied. In order to meet fixed expenses, such as pensions, local governments in New Jersey have attempted to be freed from property-tax restrictions that were imposed when the state instituted its income tax in 1975. Some cities have initiated law suits against the states concerning the distribution of funds and the ability to raise revenue (Wood and Klimkowsky, in this volume). Many cities are turning to user fees wherever possible. Orlando provides an interesting example. Fees for certain health services were instituted, thereby enabling health care to the medical ly indigent to be increased, and sewer connection and service fees were raised dramatically to help fund the city's growing need for that service and to meet the increased local match requirement, which Florida instituted one year earlier than required by the federal government.

Where mandates and state preemption are not accompanied by sufficient funds to carry out the function, the new partnership comes under severe strain. Several questions have yet to be resolved under the New Federalism, and their resolution will help to determine how well the new partnership fares. Perhaps the key question is that of assuming responsibility for low-income groups. Most states ratified cuts in entitlement programs (Nathan and Doolittle, 1983). Some states have taken actions that suggest they no longer view the poor as their responsibility, particularly in times when state revenues are short and the costs of service are rising. Washington State, which did away with noncontinuing general assistance, is one example. California's transferring responsibility for medically indigent adults to the counties is another example of this.

California, with its long tradition of human services spending, had used the state general fund to finance health care to medically indigent adults. Care was provided by the counties, the state's administrative arm for the provision of human services. In 1981–1982, the legislature required counties to provide health care to this group with 70 percent state funding. Although California's action in this instance mirrored the action of the federal government in that a program was shifted to a lower level of government with a reduced level of funding, taking this action had nothing to do with the President's domestic policy. The transfer, instead, was the result of the effects of increasing health care costs on the state's budget.

States have initiated many actions that concentrate on economic development or job creation. Insofar as the responsibility for low-income groups is concerned, the focus seems to be to improve the state and local economies, and the benefits of the improved economies will be felt by all, including low-income groups. The interest in economic development and job creation can be found in both block grant policies and other state initiatives. The CSBG and Small Cities CDBG efforts, in particular, now include these emphases in many states. Other, entrepreneurial, approaches have also emerged.

These entrepreneurial approaches are often evident in relations between the state and local executive officers. In Texas, Governor Mark White, and the mayor of San Antonio, Henry Cisneros, came together with business leaders to raise funds for a public-private partnership to attract high tech industries, by enhancing the state's education and research base (Washington Post, 1984). Florida's Governor Bob Graham "joined efforts initiated by Miami area businesses to establish a private revitalization fund geared to assisting black businessmen and creating jobs in Liberty City, a depressed section of Miami that was hit by riots in 1980. Governor Graham is attempting to raise $2 million to add to the $8.5 million pledged by Miami's participating businesses" (Billitteri, 1984).

The field associates for the Princeton study report that in New Jersey, Texas, and California local executives tend to turn to the state legislature rather than to the governor for assistance. In both New Jersey and California, the mayors of large cities and the state legislators tend to share party affiliation. In other words, the mayors of big cities and state legislators in those states are usually Democrats. The governors are Republicans, and the Democratic mayors turn to the Democrat-controlled legislatures for assistance. In Texas, the powers of the governor are strictly limited, and local executive officers lobby the more powerful legislature for assistance.

Relationships under the new partnership are undergoing change, and an apparent trend is increased legislative involvement. Since 1981, more state legislatures have taken or received greater appropriations authority. After three vetoed oversight bills in 1982, for example, the New Jersey legislature gained appropriations authority over federal funds through language included in the appropriations bill.

The Oklahoma legislature attempted to gain greater oversight responsibility over federal funds and increased appropriations authority over state funds with mixed success. The legislature's 1982 effort to gain increased control over federal funds failed when the attorney general ruled it unconstitutional, declaring that if the procedure was a legislative function, it could not be executed by a committee, as the legislature had designed the process. Efforts to gain appropriations authority over state funds were more successful. In fiscal year 1983, the legislature brought state funds for the Department of Human Services, which since 1936 had the receipts of Oklahoma's 2-cent sales tax earmarked for its use, into the appropriations process. The 1983 recession found the governor, after maintaining a fairly passive role in response to the initial federal cuts, taking the lead in reassessing the state budget with respect to the state's worsening fiscal condition and strengthening his hold over federal funds (Rittenoure et al., in press).

EMERGING MECHANISMS

The mechanisms that are emerging for increased state-local cooperation, coordination, or communication include state management initiatives and a variety of categorical responses to pressing problems. A great deal of activity has focused on economic development, especially on the attraction of high tech industries. New Jersey provides examples of all three types of initiatives. New Jersey's governor established a science and technology commission, designed to attract industries through labor-pool development and research activities, and a management improvement commission, geared to battling inefficiencies in government; he also proposed the establishment of an Urban Development Corporation to coordinate state agency efforts to rebuild urban areas. In December, the state also responded to concerns of 28 cities that police and fire-fighter layoffs were forthcoming, due to capped property taxes, by making $7.4 million available to the 28 cities (field associate interview and New York Times, 1984).

Education continues to be a major concern in many states and will be the focus of many upcoming legislative sessions. Chicago schools project deficits between $100 million and $300 million over the next few years, and as yet there has been no "give" in the state's position not to provide additional funding. California will consider whether to step up its funding for K-12 education. The state share was increased $800 million last year, and several reforms, such as lengthening the school day and school year, were initiated. On review of last year's reforms, the state may increase its intended contribution to local education. Oklahoma is considering property-tax equalization reforms, which are opposed by rural areas. A move by Washington's governor to reduce state funding for K-12 education was found unconstitutional, and the state is now considering increasing state support.

Efforts to revitalize cities often take an entrepreneurial approach and attempt to join business and government. Urban enterprise zones represent one such initiative, and as of 1983 nine states had enterprise zones in operation (Sabre Foundation, 1983). Of the eight states under discussion, five had adopted some type of urban enterprise zone initiative as of 1983 (Revzan, 1983).

In New Jersey, Newark and Jersey City are participating in that state's urban enterprise zone program, which offers a combination of tax incentives, low-interest loans, and eased regulatory and permitting processes (New York Times, 1984). Florida was the first state to pass an urban enterprise zone initiative.

In Florida, three bills, passed in the wake of 1980's Liberty City riots, offer incentives to corporations in an attempt to revitalize distressed areas. Two of the bills relate to enterprise zones and allow corporations to take deductions from their state corporate-profits taxes for either hiring people from designated, distressed areas or locating operations in those areas. Almost all metropolitan areas in Florida have established enterprise zones. The third bill was designed to encourage corporations to make donations that would affect community redevelopment by granting corporations a 50 percent tax credit for donations to eligible projects. To be eligible, a project must be related to economic development or physical development or redevelopment, and since fiscal year 1981 donations to those projects have totaled over $3.5 million. The largest such project to date is Miami's Business Assistance Center, geared to providing employment opportunities and small business development in Liberty City.

The full impact of Florida's enterprise zone initiatives is difficult to assess, since corporations are allowed to take the tax deduction up to five years after undertaking the eligible activities. Despite the fact that the figures to date may understate the impact, the record is quite impressive. Under the enterprise zone job credit, $4, 143, 829 in credits have been claimed from 1981 through 1983 for the creation of 4,679 jobs in distressed areas. The state's other enterprise zone initiative resulted in 13 corporations' locating or expanding operations in distressed areas between 1981 and 1983.

Florida's Housing Finance Agency (HFA) has also become active in both single-family and multifamily housing and has increased its focus on low-and moderate-income people. Through the combined efforts of the HFA and local governments, Florida issued bonds for financing single family housing to the full extent allowed by the federal government, $547 million in 1983 alone. The Housing Finance Agency has narrowed the target population for its single-family program by reducing the income eligibility level from 150 percent to 120 percent of the median family income. Contrary to the conventional wisdom concerning housing finance agencies, this agency's bonding efforts are concentrated on rental housing.

In 1983, Florida ranked second in the nation in the dollar value of bonds sold for multifamily rental housing. This statistic almost understates the Florida effort in that Florida sold nearly two times more in bonds than did the state that ranked third. Since 1981, the Florida HFA has issued $365 million in bonds for single-family housing and $400 million in bonds for rental housing. While the agency has issued bonds for financing federally assisted housing, the greater portion of its efforts has focused on market rate, nonsubsidized rental housing. Since 1981, $285 million in market rate bonds have been issued with the requirement that 20 percent of the rental units be set aside for low-income people, those with incomes up to 80 percent of the median family income. The remaining units are then available to those with incomes that are not greater than 150 percent of the median.

Other initiatives to provide low-income housing in Florida come about through the Development of Regional Impact process and the state review of development in Areas of Critical State Concern. Through these processes the state, regional, and local governments can issue development orders or permits on the condition that a certain percentage of low-and moderate-income housing be provided. This mechanism helps to make up for the federal withdrawal of assistance in low-cost housing.

FORGING THE PARTNERSHIP

The difficulties associated with forging a new partnership between state and local governments are similar to those encountered in modern marriage. In both these partnerships, changing social conditions are forcing a reconsideration of roles and responsibilities. Relations are sometimes strained by the combined demands and restrictions one partner places on another. In both cases, the need to forge a new partnership is great, and the character of the partnership will be derived through the painstaking deliberations that occur between the partners throughout their union. However, relations between states and local governments, like relations between marriage partners, not only evolve over time but also differ from case to case.

If the states' reactions to the trials of the 1980s provide any indication, states' responses to local government can be expected to vary greatly. Indeed, state responses to local government can take such polar forms as increased state aid, as in Massachusetts and Florida, or of state retrenchment, as in Washington. In struggling to contend with statewide issues, a state's actions may not paint a coherent picture of its responses to local government. California, for example, provided increased financial aid to local governments after the passing of Proposition 13 and also transferred some of the financial responsibility for medically indigent adults to the counties. New Jersey is another example. That state has developed an array of programs to aid local governments but has also pressed them to repay debts to the state and raised the interest penalty from 6 percent to the market rate. As of 1983, Newark owed the state $7.75 million (New York Times, 1983). Thus, state responses to local government can be expected to change over time, to vary state by state, and, within a single state, to differ from issue to issue.

The states' responses to the challenges of the New Federalism have been so varied, so tied to state issues, that generalities are hard to draw. The picture is mixed. To some extent, this is due to the fact that the story is still in the telling; the states are still in the process of responding. Perhaps to a greater extent, the challenge of the New Federalism was overshadowed by other challenges, particularly the recession and state-revenue shortfalls, that confronted the states.

In reviewing the states' actions with respect to their increased authority under the block grants, it becomes apparent that many state decisions, as in California and Illinois, are politically based. One of the reasons Nathan and Doolittle (1983) cite to explain the alloca tion changes in CSBG funds, the block grant that had the most notable changes in its allocation structure, was that the recipients, community action agencies, had no political base in the states.

Although the states' records are mixed, the prospects for a strengthening of the state-local partnership are better than ever. The states have improved their capabilities and have shown some willingness to respond to the problems of local government through the development of a wide variety of initiatives. The mechanisms the states develop will probably increasingly include management initiatives, a focus in both block-grant policies, such as Illinois' emphasis on the proven effectiveness of programs in refunding decisions under the CSBG, and other state programs, such as New Jersey's Urban Development Corporation. Other state initiatives may well include greater private sector involvement through state-developed incentives, as in enterprise zones or, as in Florida, requirements of the Development of Regional Impact or Areas of Critical State Concern processes. In general, the states now seem more apt to respond to specific problems than to take a comprehensive approach to urban problems, or, in grant terminology, states tend to take a categorical, not a block, approach.

The states' responses to the challenges of the New Federalism are uneven. In some cases, local governments may perceive themselves as the estranged but still dependent partners in this new partnership. Some states have shown a willingness to grant local governments a larger measure of independence in the form of increased revenue-raising options, but these options have seldom been broad based. Where states place strict revenue restrictions on local governments, those governments can come to view the very provision of basic services as a state, rather than a local, responsibility.

Aside from public-private sector initiatives, the states remain the only potential, external source to which cities and other local governments can turn for responses to the problems they cannot solve themselves. Increased federal aid to local government is unlikely if not impossible given the changing national fiscal priorities. Local governments could profit by the sharp lesson learned by community action agencies: A strong state political base is vital when the states become the principal dispersers of aid.

There have been enough favorable responses on the part of the states, including those states without a strong history of providing what Wolman would classify as "urban" aid, to justify the optimistic position that cities and other local governments should concentrate on building new relationships with the states. Through their recent efforts, the states have shown that they are becoming and will continue to evolve as strong partners in the federal system. The states have emerged as the chief partner in the federal system from whom local governments can expect a favorable response to local needs.

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9

Cities in the New Federalism

Robert C. Wood and Beverly Klimkowsky

INTERGOVERNMENTAL RELATIONS TODAY

The departure point for this inquiry is commonplace. What are the consequences of the Reagan administration's initiatives in restructuring and reducing federal intergovernmental aid programs for the fiscal fortunes and policy options of large American cities?

At the outset, we simply stipulate conventional wisdom—the major contemporary observations and conclusions about the present state of American federalism. Afterwards, we explore a less familiar terrain—the urban political and policymaking processes that have emerged to cope with changing circumstances.

The major stipulations are these:

- From the travail of the New Deal emerged clusters of federal aid programs that transformed constitutional doctrine on the federal system by replacing the concept of "dual federalism" with a "cooperative" one, effectively setting aside the restraints of substantive due process, and establishing a national capacity to become involved in public domestic activities that was legally almost unconstrained.
- From the New Deal era until the mid-1970s the number of federally assisted programs carried out at state and local levels multiplied and the total dollar amount of federal aid grew rapidly.
- During this 40-year period an intergovernmental process of policymaking emerged, familiarly known as the "Iron Triangle," that featured an alliance in urban programs among aggressive mayors, responsive congressmen, and federal administrator-entrepreneurs who supported and encouraged categorical aid programs.

The programs were subsequently implemented through the collaboration of professional program specialists in "Vertical Axes" and orchestrated among professionals at all three governmental levels, which discouraged general policy oversight.

- As the Iron Triangles and Vertical Axes evolved, they introduced new components into the system. Kennedy-Johnson legislation empowered the poor to some extent through the vehicle of citizen participation. It also initiated the practice of targeting aid especially to large cities. In the Nixon-Ford years, the concepts of entitlement and the use of formulas, as in revenue sharing, reduced administrative discretion and limited the application of targeting, which was only partially restored during the Carter administration.
- By the mid-1970s the concurrent forces of growing economic constraints, political experience, and professional evaluation of cooperative federalism resulted in a consensus that the delivery system was "overloaded." It cost too much; it was ineffective in impact; and it was inefficient in administration.
- In effect, Reagan's New Federalism embraced an already accepted judgment as to the need for devolution and reform. It did so, however, during a period of national economic recession and growing national government deficits. The result was sharply reduced appropriation levels and controversial ideological positions. Neither the budget cuts nor the ideology of the proposed "trade-offs" of national and state responsibilities were accepted by many states and cities.
- Although the Reagan administration's package was not completely enacted, 54 previous categorical grants were consolidated into 9 block grants. Total grants declined between 1981 and 1982 by $6.6 billion; and the consolidation into block grants was used to justify cuts of up to 25 percent. Grants previously provided to local governments were redirected to the states. Most observers agreed that the states' role in the intergovernmental process had been substantially enhanced (Nathan and Doolittle, 1984).

THE NEW "MAYORS" GAME

If the conventional wisdom is right in its estimate of the current situation, it is fair to assume cities are in a new ball game: more complex, more threatening, more uncertain than at any time since World War II. The late 1970s may have been grim indeed in terms of municipal fiscal crises and shifting Washington signals. But even the Ford administration bailed out New York City, and however much Carter's urban program resembled a seed catalog, an adroit city administration could find some useful items still in stock.

Now, the most likely forecast for federal support to cities is one of continued and substantial cuts, exacerbated by the national deficit and applied in the context of new power and discretion vested through the block grants in the states. It is this latter structural change that most sharply distinguishes urban fiscal experience in the eighties from the politics of scarcity that had set in almost a decade earlier.

How are large cities responding and is there a pattern to the responses? One can sketch the broad outlines of plausible strategies, but only after two obvious caveats. First, urban situations will vary with relative degrees of economic well-being, the local fiscal systems that are extant, and the mix of local public services that the city has come to support. Second, they will vary by the structural circumstances of the local forms of government: strong mayors or weak; city managers or commissions; a large number of independent local governing authorities or a few in such areas as schools, housing, and transit; at-large or ward elections; active or inactive community-based organizations; supportive or hostile private sector leadership; powerful "overlying" governments, such as counties or functional metropolitan districts, or less powerful overlays. And the interface with the states must accommodate corresponding structural variations at that level: strong or weak governors; large or small legislatures with different proportions of urban, suburban, and rural members; more or less professional bureaucracies; different constellations of interest groups.

The multiplicity of factors and possible forms of interaction having been acknowledged, it is still possible to suggest some generalized propositions from which specific variations can subsequently be identified:

- All urban governments theoretically face the same options: to cut services, raise local taxes, economize, or seek resources from outside the local political system.

- In seeking outside resources all now must consider a three-track strategy. Federal aid is not eliminated and therefore must still be pursued. State grants take on a new importance and state aid must be cultivated with new vigor. The possibility of help from the private sector and not-for-profit institutions requires at least systematic exploration, even if the prospects seem marginal.
- The new importance of a viable strategy for state aid seems to require a city posture of accommodation to general state political leadership, which need not have obtained before. That is, the revenues the state permits localities to raise, the manner in which states allocate block grants, the structure of dispersal formulas and indexes become more significant in a city's policy calculations.
- The demonstration of urban minority political power, represented by the election of minority mayors, introduces racism as a factor both in local politics and in state-city relations. This takes on considerable potential significance, especially given the absence of minority governors and the relatively small role of minority legislative caucuses.
- Urban-oriented interest groups face the necessity of redirecting their attention and resources to state capitols and revising their strategies of coalition building and cooperation.
- The variations in city bureaucratic style and the degree of professionalism further complicate the design of effective urban strategies.

These general conditions suggest the following hypotheses for empirical validation. The emerging intergovernmental political system for authoritatively allocating resources to localities is more unstable than its predecessor because of the changed character of gubernatorial-mayoralty relations, variations in state legislative composition, new mixes in interest groups, and wide variations in the respective responsibilities, structures, needs, and capabilities at state and local levels. One can expect a greater potential for conflict rather than for cooperation and less systematic sets of relationships than obtained with the federal Iron Triangles and Vertical Axes. A variety of urban strategies is likely as loose networks and shifting coalitions of uncertain character appear. Cities will first maximize their own resources. Accordingly, quite different patterns of accommodation are detectable, but the aggregate effect is a diminution of city capacity to secure resources and authority from outside the local system. Programs oriented toward the poor and minorities will especially suffer.

TESTING: THE NATHAN RETURNS AND THE COMMITTEE ON NATIONAL URBAN POLICY TYPOLOGY

The task of marshaling evidence about where current urban strategies originate and how they are executed is greatly assisted by the ground already broken by Richard P. Nathan, Fred C. Doolittle, and their associates at Princeton University's Urban and Regional Research Center. In their study, The Consequences of Cuts (Nathan and Doolittle, 1983), the authors pioneered in examining the responses of 14 state governments, 14 large cities, and 26 smaller cities and suburban and rural governments to the federal aid reductions and the shift from categorical to block grants. (We are much indebted to Nathan and his associates for providing access to the Center's original field reports and for the cooperation of many field associates in informally updating their observations.)

Nathan and his associates concentrated initially on what specific program cuts were made and when and how the sample governments responded. They grouped their governments by comparative net replacement rates, expressed in percentage intervals, and characterized them qualitatively as to degree of fiscal pressure they appear under, their political ideology as determined by comparative public welfare spending, and in the case of cities, the role of overlying governments. We have chosen, in collaboration with DeGrove and Brumback, to extend the Nathan and Doolittle analysis for eight cities. Their typology for these eight cities is presented in Table 9-1.

With the exception of the apparent importance of overlying governments, there appears no strong associations with the degree of replacement of federal grants now reduced and the fiscal pressure or political ideology of the cities. Newark, as Nathan and Doolittle note, might have been expected to have a more positive response, but its specific fiscal history explains its bottom position. Apparent reasons for the behavior of the other cities are also described on a case-by-case basis by Nathan and Doolittle.

TABLE 9-1 City Classification by Nathan and Doolittle Typology

City	Fiscal Pressure	Political Ideology	Role of Outlying Governments
Highest Replacement:			
Orlando	Little	Moderate	Strong
Los Angeles	Extreme	Moderate	Strong
Houston	Little	Moderate	Strong
Lowest Replacement:			
Chicago	Moderate	Moderate	Strong
Boston	Extreme	Moderate	Medium
Tulsa	Little	Conservative	Weak
Seattle	Moderate	Moderate	Medium
Newark	Moderate	Liberal	Weak

SOURCE: Classification scheme is drawn from Nathan and Doolittle (1983).

We introduce two additional dimensions to the Nathan and Doolittle typology. The first is the average percentage reduction of all the federal program cuts, rank ordered by city (see Table 9-2), and the second is the classification of the eight cities according to the typology employed by the Committee on National Urban Policy in Rethinking Urban Policy (National Research Council, 1983) (see Table 9-3). The typology of the Committee on National Urban Policy was developed in the context of examining the effects of the transition to a service economy on U.S. cities and metropolitan areas. It departs from conventional economic-base analyses, as well as the contemporary emphasis on differential regional patterns of development, i.e., snow belt and sun belt. Instead, it identifies the growing dominance of a small number of national "command and control" centers. Then, the typology classifies the remaining urban areas as "subordinate." Accordingly, it puts the 140 largest

TABLE 9-2 Average Program Reduction by Cities (percentage)

City	Average Reduction
Seattle	29
Houston	21
Los Angeles	18
Chicago	12
Boston	12
Newark	11
Tulsa	9
Orlando	9

SOURCE: Nathan and Doolittle (1983).

TABLE 9-3 City Classification by Committee on National Urban Policy Typology

Command and Control, Diversified Service Centers	City
National Command and Control	Los Angeles
	Chicago
Regional Command and Control	Boston
	Houston
	Seattle
Specialized Service	Tulsa
Centers: Functional	Newark
Subordinate Service	Orlando
Centers: Resort-Retirement	

SOURCE: National Research Council (1983).

metropolitan areas into four major classes of economic activity reflective of the emerging service-oriented economy: diversified service centers, specialized service centers, consumer-oriented centers, and production centers. The first two classes comprise national and regional command and control centers; the last two classes comprise subordinate centers. (Chapter 3 in Rethinking Urban Policy describes the analysis in detail, pp. 38 ff.)

The status of the eight cities is consolidated from the three preceding tables in Table 9-4. Inspecting these arrays yields two further clues in addition to Nathan and Doolittle's emphasis on the role of overlying governments. First, the assumption that high-replacement could most easily be made in cities that experienced low program reductions holds for Orlando, but not for the other cities. Seattle appears to be in the opposite situation, low replacement and high reduction. The other cities remain in roughly the same rank order, indicating pressures for program maintenance irrespective of the size of reduction. Second, most cities are service-oriented command and control ones with reasonable economic futures, but Newark and Tulsa are vulnerable to changes in national economic conditions. One senses for the other six at least a latent capacity to respond—but working with these data alone no clear pattern emerges.

Testing: Refining the Nathan Returns—Public Finance

One can extend and expand Nathan and Doolittle's impressive work and the additional data we have introduced in two further ways. First, building on established models of local public finance, one can elaborate on demand-inducing factors in public service expenditures in the cities and on the fiscal capabilities for expanding revenues, thus elaborating on the concept of fiscal pressure. Second, one can refine the concept of political ideology by comparing typologies of political culture that are indicative of the intensity with which a local political system feels compelled to seek remedial replacement of the budget cuts.

A genuinely authoritative inquiry into the relevant community characteristics is beyond the scope of this inquiry, involving at minimum such statistical techniques as factor analysis. But a generation of research has established that—after controlling for community size—"industrialization" (the proportion of land devoted to industrial purposes and the value of business property) is the prime factor on the supply side in explaining levels of and variations in local expenditures. On the demand side, housing density, age distribution, and low-income prevalence are the most significant variables. When applied over time to comparative behavior of local tax rates, assessments, and expenditure levels, they have yielded consistently informative results (Wood, 1961). Contemporary analyses of local fiscal behavior employing regression analysis and other statistical techniques appear to confirm this behavior, although their focus is on other cities than those in the Nathan and Doolittle sample or they group cities with localities in general (Clark and Ferguson, 1983; Luce and Pack, 1984). We undertake no such ambitious

TABLE 9-4 City Rank Orders of Replacement and Reduction by CNUP Typology

City	Rank Order of Replacement	Rank Order of Average Reduction	CNUP Classification
Orlando	1	8	Subordinate Service Center (Resort-retirement)
Los Angeles	2	3	Diversified (National command and control)
Houston	3	2	Diversified (Regional command and control)
Chicago	4	4	Diversified (National command and control)
Boston	5	5	Diversified (Regional command and control)
Tulsa	6	7	Specialized (Functional command and control)
Seattle	7	1	Diversified (Regional command and control)
Newark	8	6	Specialized (Functional command and control)

SOURCE: National Research Council (1983).

research effort here. Simply examining the rank order of data is suggestive, however. (Rank-order tables for community characteristics appear as appendix tables.)

The three high-replacement cities—Orlando, Los Angeles, and Houston—are all rapid-growth cities, where "industrialization" implied a growing local revenue base (in 1984 one would substitute "service-oriented command and control" or "resort-retirement" for "industrial base" according to the classifications established by the Committee on National Urban Policy. The two command and control cities (Los Angeles and Houston) rank high in median income (see Table A-1). As a resort-retirement city, Orlando has a median income that is probably explained by cost-of-living differentials; the city still stands ahead of Boston and Newark in median income, however.

When demand-oriented characteristics are considered, the high-replacement cities rank at the median in total dependent population (see Table A-2) with high scores for population under age 5 and median scores on school-age and over-65 cohorts, which suggests reasonable pressure to respond. So does their middle rank in the percentage of families below the poverty line (Table A-1). Unemployment rates—at the mercy of the national economy and not directly related to the grant programs under consideration—are low in Houston and Orlando and median in Los Angeles (Table A-3).

For Nathan and Doolittle's high-replacement cities then, a picture emerges of high and growing taxable resources, coupled with reasonably strong demands generated by a dependent population disposed to require city services and with the requirement to extend services to an expanding population (Table A-4). Los Angeles' "extreme" fiscal pressure seems essentially a factor of size and the fact that it is older and growing more slowly. Its capacity to transfer pressure to overlying governments is probably its escape hatch. In all three cities, the reconciliation of local response to national austerity appears to have been no big deal.

Testing: Refining the Nathan Returns—Political Culture

What of the demographic and economic characteristics of the low replacement cities? In order of size, Chicago and Boston are high in loss of population, below average in median income, and above average in unemploy ment. In expenditure-generating characteristics, dependent population and families below the poverty line, they rank sixth and seventh, respectively. Hence, increasingly limited resources face steadily growing demands, which their status as national and regional command and control diversified service centers may be mitigating. To date, the constraints of their revenue sources apparently are controlling.

Tulsa, a specialized service center, and Seattle, a regional command and control center, present different pictures—Tulsa's population growth rate was 9 percent between 1970 and 1980, but Seattle's population decreased by 7 percent. Both cities are high in median income; Tulsa is low and Seattle high in unemployment. Seattle's dependency ratio is the lowest of the sample; Tulsa is the median of the sample. They have the two lowest percentages of poverty families. Accordingly, although Seattle has revenue-source problems in the loss of population and high unemployment, neither Seattle nor Tulsa has extreme service demands and both have structured their low responses accordingly.

What of Newark? A depressed functional service center and almost always at the bottom of every table, Newark has lost the greatest percentage of population; has the lowest median income, the highest unemployment rate; and the largest dependent population. Its percentage of families below the poverty line exceeds that of all other cities by 10 percent. It does not replace simply because it cannot within its own resources, even though its service needs are staggering. It may be that service needs are so awesome that the city ultimately gives up efforts to achieve even minimum program standards of national acceptability.

If a first cut at the interplay between supply-and demand-oriented factors of city finance sheds some further light on our cities' respective standings, what contributions can a delineation of political cultures make? That is, can the existence of a political disposition to buffer cuts, establish different priorities, and exert leadership affect the response to federal cuts? Adapting Daniel Elazar's political culture (1972) typology for Nathan and Doolittle's 14 cities and our 8 produces the results displayed in Table 9-5. Elazar (1972:18) defines political culture as "the particular pattern of orientation to political action in which each political system is embedded." Tradition and history yield rules governing political behavior. Elazar identifies individualistic political culture as market oriented, adversely inclined toward active governments, and having a propensity to view bureaucracy as a means for individual career advancement (i.e., disposition to corruption) and politics as a "dirty," necessary evil expressed in partisan behavior. Moralistic culture holds the ideal of a "good community," "a commonwealth." It places high value on positive public action and professional bureaucracies and views politics as healthy and issue oriented. Traditional culture is concerned with maintaining the existing order and executing public programs through personal networks and is negatively disposed to bureaucracy and a politics of consensus among existing elites.

TABLE 9-5 Dominant Political Culture

	Individualistic	Moralistic	Traditional
Highest	Cleveland (3)	Los Angeles (2)	Orlando (1)
Replacement:	Rochester (4)		Houston (5)
Lowest	Chicago (8)	Sioux Falls (6)	Tulsa (10)
Replacement:	Boston (9)	St. Louis (7)	Phoenix (11)
	Newark (14)	Seattle (12)	Jackson (13)

SOURCE: Political culture classification scheme is drawn from Elazar (1972).

The cities in Table 9-5 exhibit an appropriate diversity—except for the fact that our eight-city sample is not represented in the high-replacement, individualistic cell. Traditional cultures presumably replaced an orthodox bundle of public services; "moralistic" Los Angeles follows suit (one suspects that Elazar's typology was applied statewide here, or weighted to Northern California). Low replacement is individualistically oriented, though both moralistic and traditional cultures are involved.

One gains further insight when the characteristic of ethnic diversity is examined (Table A-5). The high-replacement cities have substantial minority populations, but the white percentage is between 60 percent and 70 percent. The three lowest replacement cities—Tulsa, Seattle, and Newark—have either substantial white majorities (in the 80th percentile) or a black majority (58 percent). Chicago has a bare white majority (50.33 percent); and Boston, a substantial but declining one (70.45 percent).

One inference to be drawn (corresponding to the Nathan and Doolittle typology) is that a substantial but not extreme ethnic diversity tends to push the city's political system toward restoration. One suspects a critical division between operating and capital-outlay replacement in traditional cultures. When black-white-Native American-Asian-Spanish divisions become substantial, some replacement takes place but, in individualistic cultures, in a brokerage not a consensus mode. Where diversity is low, so is a replacement disposition, especially in the service programs, either out of political indifference or economic incapacity.

A second aspect of political culture can be introduced: the "weight" of political tradition, the lingering disposition to regard the city's public sector as a vehicle for ethnic upward mobility, a support system for political campaigns, a refuge for deserving relatives. This is to be contrasted with the professionalization of local civil service in newer cities or their accommodation to growing minorities. Here, measured by the number of city government employees per 10,000 population, "individualistic" Boston clearly stands out; "individualistic" Newark follows; "individualistic" Chicago is understated; Orlando, puzzling. But where politics and bureaucracy intertwine there is probably a disposition to blunt the personnel impact of fiscal stringencies.

What emerges from these probes into community characteristics and political culture is a tentative sketch of traditional white-dominated cities: not deeply dependent on federal aid, offering established services, and usually capable of responding with their own resources to moderate cuts. Variations in unemployment rates have consequences that are probably temporary (unless structural in nature), but it is the ethnically diverse, politically volatile, financially pressured, larger older cities, where the disposition to respond is uncertain and the revenue capacity low, that are the most vulnerable. This is especially true where the individualistic or moralistic cultures have taken risks in accepting federal aid, where their economic futures (by the Committee on National Urban Policy's classifica tion) are not bright, and where their people are relatively powerless.

Hence, Nathan and Doolittle's (1983:6) basic conclusion—"The most profound effect of the Reagan program has been on people, especially the working poor"—appears confirmed. To which our analysis would add that these reside in the larger, older cities with greater dependency ratios and volatile political systems that, given their economic constraints, are rarely capable of devising comprehensive, counterpart fiscal strategies. Rather, they engage impulsively in intricate schemes to search for new sources of revenues, make maximum use of existing taxing and borrowing powers, and sometimes willing, sometimes reluctantly abdicate program responsibilities.

Typologies and categories, then, leave one with a sense of no overarching pattern of big city behavior in the first phase of hard times. They offer insights and clues but no definitive middle-range theories solidly based on quantitative data. Can one gain a better understanding by asking in greater detail what happened in the black box between community and cultural characteristic inputs and program replacement outputs as local decision makers struggled with their choices?

GENERAL STRATEGIES OF CUT-BACK MANAGEMENT

Before venturing into the behavior patterns of city political systems, it is important to reemphasize that even the most sophisticated statistical manipulation of the most detailed and reliable data about municipal finance always yields a significant "unexplained variance." It is in this residual that the preferences, priorities, powers, and values of the decision makers and participants come into play. And even if the actors are (heroically) assumed to decide rationally, the residual would contain two other components to complicate the analysis.

First, in keeping with our early caveats, the package of public services offered is likely to vary substantially, as are the levels at which they are offered and the priorities affixed to them. Although links can sometimes be established with salient community characteristics, types and quality of services are also a function of personal preferences of the chief actors, of tradition and habit, or of perceptions of adequacies determined in ignorance of more universal standards.

Second, the scope and structure of a city political system—in relation to other local systems with which it co-exists and to the state of which the city is its legal creature—become powerful factors for variance. If in one urban area, the county operates public schools or handles welfare, if in another airports, parks, and parkways are the responsibilities of authorities, then the city's basic responsibilities can vary substantially. If the state government is well disposed to city leadership, state replacements might be expected. If it is not, then the city's financial plight is intensified by state indifference or hostility.

Introducing these variables of program mix and scope and structure would lead one to expect even greater variations in strategies as the cities responded to the federal cuts. Yet in fact, when one sifts through the ways our sample cities sought to cope, an extraordinary uniformity of response emerges. With rare exception, they took steps within the local political system itself, using authority already legally existent, undertaking measures of economy that the system controlled and could implement.

Where they were authorized to do so, cities undertook that most painful of all political actions: raising the property tax rate or undertaking comprehensive reassessments. Newark, Chicago, Boston did so; Los Angeles and Orlando were not so empowered.

Searching for new taxes came next. Boston instituted parking and condominium-conversion taxes. Chicago doubled its cigarette tax. Houston undertook to expand the personal property tax to include boats and other vessels. Hotel, motel, payroll, income, and aviation fuel taxes were popular proposals. Overall, however, state oversight and charter limitations proved major deterrents here.

A new reliance, sometimes imaginative, was placed on fees. Orlando raised water and sewer charges: the price of water rose 24 percent and the fee for sewerage connections, 1000 percent. Chicago and Newark established charges for health services; Boston, a commercial fire service charge. Los Angeles tried to impose a trash collection fee; Newark, an airport fee; Tulsa and Seattle sought an earmarked portion of the gas tax revenue.

Selling assets was a third option. Boston sold its convention center to the state. Newark privatized its health centers; Chicago acquired excess school property for later resale to private parties.

The cities also sought to reduce their budgets. Personnel freezes, cuts, layoffs, and restrictions on overtime were almost universally employed. Even before Reagan, Newark had reduced its work force by 30 percent between 1976 and 1980. Houston imposed a temporary hiring freeze—a most routine tactic. Los Angeles cut "expendable" services—library and city attorneys. Boston cut "vital" services in police, fire, health, and education as a prelude to confrontation with the state.

In addition to personnel cuts came program reductions in "soft programs"—job training, nutrition, recreation, lead paint poisoning prevention, the arts, and the like. These intensified the effects of the Reagan cuts, for they affected the population already impacted by the elimination or reduction in the Comprehensive Employment and Training Act, Aid to Families with Dependent Children, and food stamps. But, since their consequences were not immediately visible, mortgaging the service future in people terms was politically acceptable.

Mortgaging the future in physical terms also seemed acceptable. Boston stopped all capital projects under way in midstream, leaving unfinished parks. Newark began a program of disinvestment and deferred maintenance. Seattle, Los Angeles, and Newark postponed maintenance on roads and bridges. Just at the time "infrastructure" was becoming a fashionable item on the public agenda, the cities appeared forced to avoid the issue.

Efficiency in management became a popular city theme. Under the well-established rubric, "don't think, reorganize," city after city adopted "new" management techniques. Los Angeles employed a forecasting firm; Boston contracted with an accounting firm. Houston announced new cost-benefit analyses; Seattle established a central management system. New management techniques in fund control, the control of telephone use, office automation, and oversight of contractors became fashionable. Orlando, Chicago, Newark, Seattle, and Houston all undertook agency reorganization.

Viewed from the perspective of systematic financial strategy, the aggregate of city responses becomes a shotgun approach, seizing at whatever instrument for increasing revenues and reducing expenditures lay immediately at hand. The least politically offensive increases in revenues—new taxes and new fees—were tried. The least politically offensive cuts—in payroll and programs—and deferment of capital outlay programs were adopted. Nonetheless, most approaches were of the nickel-and-dime variety, not broadly enough based to mobilize powerful opposition, but not lucrative enough to solve any fiscal crisis. Postponement was the key posture: Leave the legacy of unresolved issues to the next generation of city management.

Yet for all the shotgun, nickel-and-dime, potpourri the city responses seemed to exhibit, there was one extraordinarily constant political dimension. The cities turned inward to their own resources and authority; launched few sustained drives for outside help from the states; and entered into few agreements that compromised their power to decide and to allocate. They did not try very hard—if at all—to alter the state-metropolitan-local structures for the delivery of services. They preserved whatever power and autonomy they possessed; they sought to maximize their powers within the local system. They did not significantly seek to invoke the philosophy of devolution to their own level, which Reagan had urged on the states. They did not ask of the states a comparable increase in local authority and in local resources.

STAND-OFF TIME

If large cities vary greatly in their economic and social circumstances, and their prospects for future prosperity, if their political cultures dictate quite different roles for their chief elective officials and for their bureaucracies, if extremely diverse city populations have difficulty in achieving consensus, why in the initial years of federal withdrawal have they almost universally resorted to localized in-house responses?

The answer seems to come, at least as Nathan and Doolittle's field associates report, in two parts. The first part is the national disposition of the dominant political actors on the local scene to control their own turfs. The second part is the absence of major incentives on the part of the states to respond to urban needs, especially those of inner cities.

The city inclination to look inward is, in many cases, a function of stability. A mayor of long tenure in an individualistic-moralistic political culture, such as White of Boston, or Bradley of Los Angeles, will command sufficient support to undertake major responses to financial adversity. When cities have weak political leadership, professional bureaucracy flourishes. In this context, Tulsa and Newark field reports provide ample evidence of the bureaucratic disposition toward "proprietary collection and control of information" and "bickering over turf." In either instance, mayoralty-dominated or bureaucratic-dominated politics is introspective.

The tendency to go it alone is further enhanced in the case of urban minority political leadership. Whatever the fiscal plight of cities where black and Hispanic mayors have come to office, however pressing the social needs, there is little disposition to seek relief by pressing for structural reform. Calls for annexation of adjacent suburbs or some sort of metropolitan federation reintroduce the white vote that fled years ago and threaten the growing political power of city minorities. However troubled central city economic prospects may be, central city politics now provide a power base for minorities and enable them to wield substantial influence in national affairs and sometimes in the states. Giving up that newly acquired and hard-won clout to secure additional state resources at the expense of state imposition of new controls is not likely to be attractive.

Finally, the constitutional and statutory position of cities, vis-a-vis the states, is now and traditionally has been carefully contrived. There is none of the legal ambiguity of respective roles that has historically characterized federal-state relations. Dillon's (Plans and Greenberg, 1982:459) rule to the contrary notwithstanding, the cities have won their powers by charter or legislative decree through protracted negotiations. The ideology of grassroots self-government in the United States essentially implies fidelity to small local governments, suburban or rural. Cities rarely share in that symbolic support.

Thus, stable, solid local political systems are not inclined to look to the states for help—the political costs of negotiating basic changes are too high, especially for minorities. They are more likely to want to play a role in national politics, as in the Carter administration, and their relations with state officials are likely still to be contentious. City bureaucracies not only look inward, they are also often contemptuous of state counterparts. In either context, the cities are disposed to be stubborn.

Given the necessity for state elected officials to look to metropolitan constituencies, especially the suburbs, for support, there is likewise little likelihood that states will rank big cities as a high priority. So Seattle discovered, as the replacement and severity-of-cuts rank orders demonstrate; and Newark, in the reduction of its state aid in 1982 by $1.5 million. A Florida county administrator we interviewed expressed the feeling of many city officials when he stated: "We don't have much faith in channeling things through the state. They mandate things and don't meet their responsibilities. We'll get the short end of the lower dollar stick." (Statistical confirmation on state behavior vis-a-vis localities in general comes from Luce and Pack (1984). Their simulations include the displacement behavior of all 50 states. Luce and Pack (1984:354) conclude "In many states, even (federal) aid cutbacks of 50 percent are not as harmful to local revenues as the displacement of federal aid which occurs <u>when the state is made the intermediary between the federal and local governments</u>.")

Moreover, the political chemistry between state and local political systems is often poor. Mayors, with some frequency, are disposed to seek the governorship, as did White in Massachusetts, Koch in New York, Bradley in California. City members of state legislatures, as in Massachusetts, often eye the mayoralty. A systematic review of challenges of urban leadership to governors in state elections (as compared with urban challenges in congressional ones) remains to be accomplished. Yet, one senses that the political alliances in the federal Iron Triangles were more comfortable than in the present contentious state-local networks. So the states are stubborn too—and suspicious as well.

Where constructive relations appear to exist, they begin at the agency level, where tentative alliances of city departments and interest groups coincide. There is little evidence that gubernatorial-mayoralty relations have substantially improved. Indeed, the response of Connecticut's governor to the allocation of block grants was to turn the problem over to a negotiation-mediation team composed of state and local officials and community-based organizations.

Private sector support—another tenet of the New Federalism—does not appear an option of much promise. There are marginal additions and rhetorical questions, to be sure. In Tulsa and Seattle, the United Way orga nized special drives aimed at raising funds to replace part of the budget cuts. In Chicago, racetracks sponsored special charity days, directing that the proceeds of the day go to local charitable organizations. Resource networks examining the range of charitable activities in Tulsa and Seattle were formed to make better use of the available resources.

While private efforts responded, New Federalism errs in its assumption of how much of the burden private charities and corporations are willing and able to assume. Their capacity to respond falls far short of the amount of the budget cuts, leaving a large gap filled with people in need of services. The incapacity of the nonprofit sector to respond stems from its own dependence on federal dollars. Most persons do not know that "nonprofits are often actively involved as partners of government in the operation of public programs; thus the same budget cuts that reduce the role of the public sector also undermine the financial health of private, non-profit organizations" (Salamon and Abramson, 1983). Since nonprofit organizations derive approximately 35 percent of their revenues from the federal government, federal cutbacks seriously compromise their ability to perform at their prior level, to say nothing of assuming new responsibilities. At best, then, the private sector helps out in some critical program areas (i.e., summer youth employment), but it cannot play a genuine replacement role.

City governments, however, are forging new alliances with overlying governments and with other city governments on a needs basis. Although regional planning and other long-term efforts have generally failed, cities and counties willingly join forces to lobby state officials on issues that affect them jointly. In Texas, mayors meet frequently to discuss common concerns and appeal to the governor jointly. The city of Seattle joined a court case contesting the narrowness of state definition of basic education. This case illustrates the alliance between local governments and the increasingly used tactic of cities' appealing to the courts in issues against the state. Increasingly cities challenge state government authority. A spate of cases has occurred throughout the country in which cities and poorer counties join together and demand more state money for education. City and counties also ban together to challenge the limitations that states place on their power to raise revenue, enacting taxes that test those lim its. Yet, these are not strategies for new structures or new patterns of collaboration. They are, instead, derived to extend and to expand the scope of local autonomies.

CONCLUSIONS

State and local government at a stubborn stand-off, the private sector with only a marginal capacity to respond, local intergovernmental alliances at the stage of cocktail collaboration designed to enhance local authority—what do we derive from these behavior patterns? The short answer is that our initial hypotheses seem confirmed on the basis of the data that this speculative inquiry has assembled. But there are further inferences to be drawn.

First, through the euphemism of the New Federalism, the Reagan administration has achieved its principal objective: a substantial reduction in domestic spending.

Second, the places impacted most have, as residents, the people impacted most: the poor, the elderly, the young, and the sick. It is in the cities where economic and community characteristics indicate the greatest demands, the least resources, and the poorest prospects for development that the cuts fall usually most severely

Third, these cuts are mitigated variously by "scrambling responses" that are dependent on the availability of local resources. Cities have no stable basis of funding to do otherwise, so they piece together a solution.

Fourth, state governments have, up to now, not shown themselves to be responsive when it comes to passing money through to local governments or to granting them autonomy to solve problems themselves. States have not been eager to take up the slack of services, beyond the most basic, that the federal government is abandoning.

Fifth, there are no apparent Iron Triangles among state legislatures, cities, and agencies. At best, there are city-issue networks; temporary alliances emerge when immediate issues arise and are discarded when the issues are temporarily resolved. Interest groups, powerful at the national level, now are forced to mount 50 separate campaigns with vastly different mixes of political influence.

Sixth, New Federalism exacerbates the tendency to mortgage the future of the cities and the needy. Infrastructure crumbles, new facilities do not appear. The cutbacks in preventive programs will likely haunt future policymakers.

In sum, there is no detectable evidence that cities, even in time of a reviving economy, will benefit from the New Federalism. With no structural reform at the local level asked for or offered, local resources will be pressed even more. State aid to localities, even if expanded, will be skewed to suburban and rural communities. Pundits of the 1990s may well look back on the work of their predecessors of the 1970s who denounced the Iron Triangles and the Vertical Axes that "overloaded" the system in the 1960s, and somewhat wistfully suggest that the national urban commitment was not altogether ill advised.

Not only was the national interest in cities "that work" abandoned and help to imaginative and forceful city leadership withdrawn, but also the authority and the power to provide support was returned to the states. It had been, of course, the state indifference to urban problems and state neglect of urban needs that had prompted the national urban policies in the first place. For all the professionalization of state government, whatever the effect of the "one-man-one-vote" Supreme Court ruling, the politics of the states still are rarely oriented to their large cities. Suburban constituencies replaced rural ones.

The clock seems indeed turned back to the era when the states viewed cities as unfortunate aberrations in the polity and ultimately by their inaction and opposition forced national intervention. There is little today to suggest a genuinely different state posture—until national intervention comes again.

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APPENDIX TABLES

TABLE A-1 Income Characteristics

City	Median Income	Percent Families Below Poverty Line
Seattle	$22,096	6.6%
Houston	21,881	10.0
Tulsa	20,956	7.4
Los Angeles	19,467	13.0
Chicago	18,776	16.8
Orlando	16,125	14.2
Boston	16,062	16.7
Newark	11,989	29.9

SOURCE: Bureau of the Census (1983).

TABLE A-2 Dependent Population (percentage)

City	Under Age 5	Ages 5–17	Age 65+	Total Dependent Population
Seattle	4.9%	12.7%	15.4%	33.0%
Boston	5.3	16.3	12.7	34.3
Houston	7.9	20.4	6.9	35.2
Los Angeles	7.1	18.1	10.6	35.8
Tulsa	7.3	18.4	10.8	36.5
Orlando	6.1	17.8	12.7	36.6
Chicago	7.7	20.7	11.4	39.8
Newark	8.7	25.4	8.8	42.9

SOURCE: Bureau of the Census (1983).

TABLE A-3 Unemployment Rates (percentage)

City	1980	1981	December 1982	December 1983
Boston	3.7%	5.8%	7.1%	5.8%
(Seattle) Washington State	8.1	11.1	13.0	10.5
Orlando	4.9	6.7	7.8	6.3
Chicago	8.5	7.9	11.2	8.5
Tulsa	3.8	3.6	7.5	8.6
Los Angeles/Long Beach	6.1	7.4	10.4	7.0
Houston	3.6	3.8	7.9	7.9
Newark	7.2	6.6	8.4	5.8
National Average	7.0	7.5	9.5	9.5

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics (1982, 1984); Bureau of the Census (1983).

TABLE A-4 Population Size and Rank

City	Size	Rank	Percent Change from 1970
Chicago	3,005,072	2	-10.8
Los Angeles	2,966,850	3	5.5
Houston	1,595,138	5	29.3
Boston	562,994	20	-12.2
Seattle	493,846	23	-7.0
Tulsa	360,919	38	9.3
Newark	329,248	46	-13.8
Orlando	128,291	124	29.6

SOURCE: Bureau of the Census (1983).

TABLE A-5 Ethnic Diversity (percentage)

City	White	Black	Native American	Asian	Spanish
Tulsa	82.82	11.87	3.83	.82	1.74
Seattle	80.24	9.43	1.38	7.88	2.58
Boston	70.45	22.46	.26	2.89	6.47
Orlando	68.4	29.90	.23	.61	4.14
Los Angeles	62.00	17.00	.65	6.96	27.48
Houston	61.53	27.56	.25	2.22	17.60
Chicago	50.33	39.84	.23	2.45	14.09
Newark	32.64	58.30	.28	.74	18.62

SOURCE: Bureau of the Census (1983).

TABLE A-6 City Government Employment Per 10,000 Population

City	City Employees
Houston	114.3
Tulsa	115.0
Los Angeles	136.9
Chicago	141.4
Seattle	172.1
Orlando	256.4
Newark	373.1
Boston	444.0

SOURCE: Bureau of the Census (1983).

10

Changing Conceptions of the Governmental Role: Their Meaning for Urban Policy

Ted Kolderie

A discussion in the mid-1980s about the future of urban policy ought to be set in the context of the rethinking now under way in this country about the scope of the public sector and the role of governmental action.

It is possible, of course, that assumptions from the recent past will hold, indefinitely or at least through the 1980s and 1990s, and that the discussion about a national urban policy can be picked up where it was left in the late 1970s. But, as this paper will argue, there are reasons to believe the earlier assumptions will not hold . . . and that the country is, in fact, in a transition to a new set of ideas about the nature of public issues and about the process of social action.

THE OLD ORDER AND THE REALIST CRITIQUE, AFTER 1880

In the effort to understand the way in which the ideas about government and private institutions are beginning to change in this country, it is probably an error to look back only to the 1930s. Fifty years ago the transition from one idea-system to another was in midstream. To find its beginnings we really need to look back 100 years, to the period beginning about 1880.

After the Revolution the forces interested in a stronger central authority established a new set of institutions of governance, roughly in the period between the Philadelphia Convention of 1787 and the end of the initial Supreme Court tests of the new Constitution, about 1820. After that, the ideas of Jacksonian democracy eroded the initial structure of the Hamiltonian state. So, after the Civil War, this country's industrial revolution occurred in a period in which the dominant ideas favored a limited national government and a free and unrestricted scope for private enterprise.

By the 1870s the rise of a business civilization was creating a set of important social problems. A "realist critique" of business activity—in the journals and in the political speeches of the time—was raising a demand for reform. But the failure of the Granger cases established the weakness of state action against industries—banking, railroads, steel, and oil—increasingly national in scope. Reform was blocked by the power of the old order; by a "steel chain of ideas" about the role of government and the limits of social action (Goldman, 1952).

The struggle to find a new idea-system that would open the way to the needed reform took about 30 years. The breakthrough came with the publication in 1909 of Herbert Croly's The Promise of American Life. Here was the conception of "the Hamiltonian state used for Jeffersonian ends," of the national state stripped away from the control of the rich and powerful, made truly democratic, and used in the interests of the common people. Theodore Roosevelt invited Croly out for a talk, bought the idea, and in the summer of 1910 took it to the country, beginning with the address to the Grand Army of the Republic at Osawatomie, Kansas (Roosevelt, 1910). It was the "New Nationalism" speech. The "I stand for the Square Deal" speech. The "I regard the executive as the steward of the public welfare" speech. It was the great modern American political speech.

The Republican party at that moment had the future in its hands—and it rejected Roosevelt in 1912. But the idea of the powerful national government survived. It was adopted by Woodrow Wilson as "The New Freedom"; revived by Franklin Roosevelt as "The New Deal"; and continued by Harry Truman as "The Fair Deal," by John F. Kennedy as "The New Frontier"; and by Lyndon Johnson as "The Great Society."

THE "OLD ORDER" AND THE REALIST CRITIQUE, AFTER 1970

Today that idea of the powerful national government is itself the subject of a realist critique. The policies and the institutions that it put in place, and that were the reforms of the past 75 years, have in time run through their own life-cycles and have become now the target of a new effort at reform. Programs and projects are under criticism for their effects; and "good intentions" is no longer an effective defense.

Policies and institutions, vital when they were new, have settled into maturity. There is a new set of problems, now, having to do not so much with growth as with change. Attitudes and values have shifted. There is a reduced confidence that issues are best handled as national problems, by political decisions, in the administrative and regulatory programs of the public sector, or through the professional service institutions that government finances.

No new idea-system has yet emerged to take the place of the New Nationalism, however. So the problems, and the question of how to respond to the problems, continue to be debated within this traditional paradigm. The question "What shall we do?" continues to be the question "What will (or should) government do?" And "What should the President propose?"

But in recent years government has been constrained in its financing. Its response has oscillated between cutting programs or benefits and raising taxes or charges; year by year giving the public less for more. Everyone is aware that another possibility exists to make some kind of fundamental change in the way things are done. But (certainly not in the context of the 1984 presidential campaign) no one has been able to find the way from "the idea of new ideas" to the new ideas themselves. The studies under way are not so much efforts to design new approaches as they are efforts to measure the present distress. Within the public sector the impulse is still toward refinancing, not toward system change. We continue, as Everett Carl Ladd has said, "in-between idea systems" (Ladd and Lipset, 1981).

In this crisis the private sector is ambivalent; caught in a dilemma of its own making. Business corporations, like the private and community foundations, have made a strong commitment to help in the solution of major social problems. But both have drawn back from the strategy of refinancing: Businesses and foundations are emphatic that the private sector cannot close the gap, and the arithmetic is unarguable.

Neither business nor philanthropy has developed an alternative strategy for maintaining and improving programs and benefits—for solving major social problems—in this period of fiscal constraint. No strategy, that is, that looks toward major system change.

For the moment most of the effort is nonstrategic—much activity with public-private partnerships, on particular problems in particular places. These are well motivated and useful in themselves, but essentially episodic, changing nothing fundamental.

The question of a strategy will return, especially as the desire reappears for an effort to restore the earlier level of public sector spending. If the private sector ends up caught between its commitment to social needs, on the one hand, and an opposition to higher levels of spending (public or private) on the other, it may then move—as it is moving now with respect to the problem of health-care and health-care costs—toward a strategy of major institutional restructuring.

PRAGMATIC RESPONSES

We are therefore in a period of transition. The idea about social action embodied in the New Nationalism remains the dominant idea. It has been damaged by the critique to which it has been subjected. But it remains the framework for thinking and talking about the need for action in our society since no other idea has emerged to replace it (Kuhn, 1962).

Other types of action are, however, emerging, so far without a theory to explain them: local action rather than national action; private rather than governmental; nonprofessional rather than professional; pro-competitive rather than regulatory. In August 1982, for example, the mayor of Seattle in a talk to the National Conference on Government spoke in the conventional terms about government having "only two choices:" to cut programs or, if that is resisted, to raise taxes. That same day, however, the Seattle newspapers reported the mayor had accepted a proposal to improve the refuse-collection system that would double the number of collection districts in order to reduce the size of each district, in order to increase the competition among haulers for the work, and in order to lower the bid price to the city. In particular terms it was an action easy to describe and easy to explain. What word was there to describe it as a general strategy?

There are similar, and much larger actions, being taken all through the system; again, as practical re sponses to particular problems. There is as yet no general theory. For example:

- Aggregate energy use in the United States was at about the same level in 1982 as in 1972. Changes in the way we operate our industrial system, transportation system, space-heating system, and the like have broken what was once thought to be an unvarying relationship between GNP and energy consumption. A very large task was accomplished, through a very large number of individually small (and largely private) decisions, influenced in some respects by government.
- The health care system is gradually beginning to change, not through public regulation so much as through the decisions of those who pay the costs to look for new and more economical ways of curing illness and of maintaining health.
- The "delivery system" has been radically transformed. The Postal Service now handles about 20 percent of the message business. A private system, United Parcel Service, now handles more than half the parcel business. Taken off its political appropriation in 1970 and required thereafter to earn its revenues, the Postal Service has been transformed into an increasingly aggressive and service-oriented competitor; now (for better or for worse) a major advertising medium.
- The reality of service, revenues, and costs in the suburbs is beginning to work a major change in the transit systems of major urban regions. The conventional vehicle—the large bus with full-time driver, on regular routes and schedules, owned and operated by a regional public agency—has been giving way to a more diversified system, with smaller vehicles and part-time drivers, on flexible routes and schedules, often organized by suburban municipalities and owned by private operators, and simply coordinated by regional transportation-planning bodies.

CHANGING IDEAS

The reappraisal of the traditional system of decision making and service delivery and the thinking about new arrangements for the organization, financing, and delivery of services are being driven by a set of different ideas, converging at about the same point in time. In desperate brevity, these may be identified:

1. The idea of decentralization, devolution, and the sharing of power. The basic wisdom that in a period of change and uncertainty there is safety in a relatively larger number of relatively smaller decisions. The impact of quality circles and worker participation in the business management literature. The particular application of this to neighborhoods.
2. A powerful strain of antiprofessionalism, which now perceives "services" as a way to disable citizens in order to manufacture an ever-expanding stream of jobs and income for those trained and certified to practice. A considerable cynicism about those proposing to do good for others, for pay. A growing interest in self-help and mutual-help.
3. A growing interest in conservation and prevention; perhaps rising out of the environmental movement and its sense of a limit on resources. An interest strategically in reducing the demand for services; visible now, for example, in the effort to reduce the use of medical services through life-style change.
4. A "massive" decline in public confidence in institutions. A growing opposition to "megastructures" whether in government, business, religion, or other fields. A renewed sense of the importance of family and neighborhood and other "mediating structures."
5. A concept of "regulatory failure"—paralleling if not replacing the sense of "market failure" that in earlier years drove the expansion of public sector regulation and administration. Ralph Nader and Common Cause helped build this attitude; but the concern about the possibility of the Hamiltonian state falling again under the control of the Hamiltonian interests was a theme throughout the reform movement that followed the Osawatomie speech (Goldman, 1952).
6. An awareness of the need for greater productivity, enforced by the revival of competition within the domestic economy and the pressure of foreign suppliers; raising questions about the need for improvements also in the services produced by the public sector.
7. A new set of questions about equity as those who genuinely cannot afford to pay see the services important to their welfare cut back, and begin to ask why money is spent to provide those services free to others who can afford to pay. Public managers, anxious to maintain their revenues, may also come to see low-price policies (as in transit or in public universities) as

unnecessary subsidies to middle-income persons, and support a policy of pricing the service more fully.

8. An understanding of the revival of capacity in political institutions, especially at the state level and including the reform of state legislatures stimulated by the Ford Foundation and Carnegie Corporation from the 1960s on. Meanwhile, a shift in the business community toward a preference for issue-management at the national level.
9. An appreciation of the way that even large, mature, bureaucratic institutions can be fundamentally changed by the forces set loose by technological and business innovations: the way UPS changed the Postal Service; the way the communications satellite broke up the broadcasting industry; the way the certificate of deposit and the money-market fund altered the savings and loans industry; the way the health maintenance organization has induced doctors to reduce their use of hospitals. Next: The way the computer and laser/video-disk changed education?
10. A growing interest, as a result, in the potential of competitive, market, or "choice" strategies for stimulating change in public-service institutions, when change has proved difficult or impossible through the process of public administration and political voting.
11. The idea—embedded in the Boulder decision (Community Communication Company, Inc. v. City of Boulder, 102 S.Ct. 842 (1982))—that municipal governments may not grant monopolies and suppress competition without fear of prosecution under the antitrust laws, simply because they are municipal governments in possession of a home rule charter or because general state law authorizes them (for example) to "regulate taxi service." The Supreme Court decision has been praised by people who would like to break into what had been "closed" markets for cable television, transportation, refuse collection, and other city services. It has sent a chill through city governments and city officials, both exposed now to prosecution, and led them both to their state capitols and to Congress for laws reestablishing their immunity.
12. A recognition that some time in the 1970s, with the tax-protest referendums in the states and the election of conservative national governments both in America and in Europe, something fundamental changed and that the traditional American liberal idea must find

some new and creative response (Kahn, 1981).

More and more efforts are now under way to arrange these ideas into some kind of general theory, and strategy, that is effective and acceptable as a basis for action on the problems now facing the country.

One such effort was undertaken in Congress, which began work on the problem of the deficit while the spotlight of political attention was focused on the presidential campaign. "We are trying to continue the traditional commitment of the (Democratic) party to fairness and equity," said Christopher J. Matthews, an aide to Speaker Thomas P. O'Neill. "At the same time, we're acknowledging and dealing with the fiscal crisis in the country" (New York Times, 1984).

The Horizons report of the International City Management Association (1978) was a fairly early effort to come to grips with changing resources and a need to change the definition of public action. The initiative in 1982 by Peter Peterson, chairman of Lehman Brothers, for a means-testing of the entitlement programs had some limited success and surfaced an issue and a policy response that remains on the table for discussion.

Research institutes, such as SRI International and the Rand Corporation, have been exploring the potential for "nonservice" alternatives and "benefit-based financing." With support from the Department of Housing and Urban Development, the International City Management Association has just completed a major survey and analysis of alternative approaches to service delivery in American cities and counties (Valente and Manchester, 1984).

There has been a large, if still somewhat aimless, movement by business into "public-private partnerships." The formation of the "independent sector" reflects a new aggressiveness by nonprofit organizations that operate social programs as well as by those that are involved in philanthropy.

The books are beyond counting: Samuel Brittan's The Role and Limits of Government (1983), most recently. Alan Pifer, formerly of the Carnegie Corporation, is at work on a study of future directions of federal social policy for the National Conference of Social Welfare. The Organisation for Economic Co-operation and Development held a conference in 1982 on "The Welfare State in Crisis," and the Ford Foundation is now beginning its own rethinking of this same now-popular subject.

CHANGING POLITICS

Much of the current rethinking had begun before the turndown of federal assistance began, in the middle of the Carter administration (Shannon, 1982). But it was considerably accelerated by the recession that began that year and then by the election of a Republican national administration in 1980 . . . and, of course, by the policy direction taken by the new Reagan administration.

Through what it has done and what it has not done, the Reagan administration has provided the opportunity and the incentive for this reappraisal to develop. However limited in their own success, these efforts—to eliminate the program "dwarfs," to shift urban policy from (as has been said) a focus on places to a focus on people, to block-grant the programs and to shift responsibility back to states and localities, to restrain the growth of domestic program spending, and to stimulate the private sector to take a greater initiative—have encouraged the rethinking now under way.

The policy of the current administration to cut back the domestic programs of the national government (Office of Management and Budget, 1984) has brought more sharply into focus certain advantages of a strategy that relies on a devolution of the responsibility for action—downward, from the national government, and outward, from government to private institutions. These seem most critical:

- The "public use of the private interest" . . . a strategy of levering change through the operation of markets . . . is more effective for distributing the hardship associated with change than is the process of political voting (Schultze, 1976). There is an effective rule against "doing <u>direct</u> harm." The "harm" that is usually associated with change is politically tolerable if it is a <u>second-order</u> consequence . . . a result of forces at work, even if those forces were themselves set in motion by political action.
- The decentralization imposed simply by the absence of national action has placed responsibility in institutions that have both a greater capacity to deal with the

problem of change and a tighter discipline in the use of resources. It is the state legislatures that create and re-create the systems of urban governmental organization and finance, and that make the rules that govern the major "life-support" systems of the urban regions. And the requirements in their constitutions for a balanced biennial budget gives them an incentive for economy and for innovation not present in a Congress always tempted by the discretion it has to continue the deficit.

- This de facto decentralization also moves the decision making away from the national capital, where action especially of the sort that would "do direct harm" tends to be constrained by the short-term considerations enforced by the intense media coverage and by the power of the organized interest groups.
- A devolution of responsibility will also permit the national government to concentrate its attention on those central questions that can be settled only at the national level: foreign affairs and defense; the management of the economy; the protection of civil and human rights; the making of basic social policy. It is not necessarily true that a growing complexity requires a greater concentration of authority at the center: It may be quite the opposite.

A POSSIBLE STRATEGY

All of the above represent the pieces that may some day be assembled into a new "construct" for public action; one that will make it possible for this country to continue its progress toward fairness and equity while opening the way for the reform that is needed in the institutions of government and in our (in the broadest sense) public service systems.

At the moment, however, the discussion is stalled. The presidential campaign failed to clarify the issues; its preoccupation with power and personality and finances being perhaps as much the responsibility of the journalists as of the candidates. Probably, clarification will have to come from others, on the outside, with respect to all three major questions: What do we mean when we talk about government "doing something"? What should be the role of the private sector? To what extent can the urban problem be effectively handled by institutions below the national level?

What Government Does

In the discussion about what government does, and should do, few things are as confusing as the term "providing." Clearly, two very different ideas are involved. One has to do with the policy decision that a benefit or service will be made available, to whom and at what level. The other is the actual arrangement for its organization and delivery. The first is truly the provision. The second is the production.

If a government decides that a service should be provided it may then also decide to produce that service itself. But, equally, it may not. It may arrange to have that service produced by others. This can be done, of course, through contracting, whereby government itself pays for the service it has decided to provide. It occurs, as well, when government decides to provide a service simply by requiring it (as city governments commonly provide us with clean restaurants by requiring their owners to keep them clean and by closing those that are not, the public paying only for the cost of the inspection).

So: The national government provides eligible veterans with hospital and medical care and produces those services through its Veterans Administration medical centers. It has at times provided veterans also with a college education, but bought those educational services from a wide variety of other producers—colleges and universities, public and private, which it does not itself own.

Put another way: The essential function of government is to "make a market" for some service or public action, sometimes through a financial commitment and sometimes through regulation. Much of the confusion in our discussion about the public sector, and many of our practical problems, grow out of the tendency to think that the government that has thus "made the market" must then also serve—or, even worse, monopolize—that market.

When a governmental body is both provider and producer its elected officials are in a dual role—responsible both for policymaking and for administration; monopoly seller to themselves as monopoly buyer; required to identify with two groups of constituents—their voters and their employees. The conflict between these roles was perfectly reflected in the comment of a county commissioner in the Twin Cities area during the recession in 1981. She was explaining the county board's inabil ity to be more generous with general assistance, pointing to the rising bill it was obliged to pay for health care. She was asked where the medically indigent were sent for care in her county. "Why, to the county medical center, of course," she answered. Someone then noted that the medical center is very nearly the highest-cost facility in the metropolitan area, and that the county board could certainly get doctor and hospital care for significantly less at any number of other places. She did not disagree. She said: "But it's our hospital."

Much of the problem . . . much of the tendency to believe that the only options are to cut services or to raise taxes, and much of the resistance to change and innovation . . . comes directly from the tendency of governments to be producer as well as provider. Or, at least, to be the sole producer.

Conversely, much of the potential for change and improvement lies in a separation of these two functions, with a new emphasis for elected officials on their policy role, and a reduction of their involvement in program operation. Elected officials, in other words, would have to acquire a new view of themselves as essentially buyers of service, open to the possibility of buying from the enterprise they own directly (which is the essence of the traditional administrative arrangement) but open as well to the possibility of buying from others, or to the possibility of doing both, in combination.

It is hard to see how the service-delivery system will change or improve unless and until policymakers put themselves in a position by which they can leave an operation that is performing unsatisfactorily and move to another that seems likely to perform better. This creates a real accountability, a prospect for an organization that it may fail, and as a result an incentive to perform.

A governmental body can move to such a strategy of competition in either of two ways:

It can itself choose among competing suppliers, contracting with one or more, for all of the work or for part of the work, for the work itself or separately for the management of the work. It may contract with other governments or with private organizations, nonprofit or commercial. Here the vendor-selection decision remains a public and political decision.

Or, it can let the selection of the supplier be the decision of the user of the service, providing the recipient either with money or with a promise-to-pay which he or she can then take to the supplier of choice. Here the vendor-selection decision becomes a private and nonpolitical decision.

In one form or another this strategy of introducing competition—of seeing itself increasingly as a strong and skillful buyer—is now in front of every governmental body in every urban region. It is enormously complex, and intensely controversial. But the controversy itself is an indication that ideas are changing. So it is essential to have the idea discussed and, as the discussion proceeds, to avoid several serious misconceptions.

The first misconception has to do with equity. It is important to understand that the strategy of competition among producers retains, rather than sacrifices, the essential social-policy role of government. A service does not become a private service when the governmental body decides to have it produced by a private organization, when a county board, for example, contracts for the management or operation of the county hospital, or even when it sells the hospital and buys care in the community hospital system. That service is "privatized" when the county abandons its commitment to the medically indigent and turns them back on their own resources. The equity issue, in other words, occurs fundamentally in the question of what is provided.

(There is a strategy of privatization, in which government withdraws as—in our terms—the provider and turns back to citizens both the decision whether something shall be done and, if done, the responsibility for paying for it. What seems under way at the moment is a kind of creeping privatization, as fees and charges are gradually introduced for a variety of services on the principle, discussed earlier, of seeking payment from those who can afford it and reserving the limited public support for those who genuinely cannot. It is interesting that several programs are arriving at the same point from the other direction as public support—for example, for winter residential heating or for electric power—is introduced into utility services that were traditionally decided on and paid for privately.)

The second misconception has to do with the purpose of contracting. It is not to substitute an "efficient" private organization for an "inefficient" public bureau. The former is not inherently more efficient than the latter, and neither is likely to be efficient if allowed to become the sole source of supply. Nor is the idea necessarily to contract out. A public body may use another governmental body to produce a service. The existence of two levels of front-line local government—municipalities and counties—in a good many metropolitan regions offers considerable potential for this arrangement. Or it may establish a contract relationship with a group of its own employees organized on the model of an enterprise. Such an arrangement was proposed this year to the city of Saint Paul and Mayor George Latimer by the Rand Corporation and is now being implemented. Some public school principals and some school teachers, similarly, have expressed an interest in having a contract relationship with their school district or school.

The third misconception has to do with the standard of comparison, which should be the same for the service produced by the governmental body directly and for the service secured from others. The problems that can arise with the contract operation can arise equally within the public bureau, from the problem of corruption to the problem of service "creaming." All of the approaches, including the public-bureau approach, should be equal "alternatives."

Finally, the change must be given time to work. It took several decades to accomplish the transition into the larger role for the government laid out in the programs of the New Nationalism. It will take several decades to make the transition to a competitive public sector.

Competition, and the principle of choice from which it emerges, is central in the new kind of public sector now being debated. Somehow, if it is really to change, the public sector must find a way to create the dynamics—the incentives and the opportunities—that will stimulate innovative people to try out the ideas they have for doing things differently and better. This is the point of a more open, less monopolistic system.

The American public wants the public sector changed. The best readings from the surveys of opinion show that the public does not want to retreat from the commitment to the high-service state (Ladd and Lipset, 1981; Ladd and Wilson, 1981). But it does want the government to perform more effectively.

The problem lies—in the terms we have used here—partly in the provision of benefits and services (the means-testing of Social Security and other programs, for example), but largely in the effectiveness and efficiency of their production. The need is for some reconstruction and revitalization of the old public-service organizations comparable to the reconstruction and revitalization being forced on many of the major privately owned systems: the effort, frequently by government through statute or through the courts, to open up the railroad industry, the trucking industry, the airline industry, the banking industry, the communications industry, the health care industry to the forces of competition, as a way of stimulating innovation and restoring productivity. One of the interesting and important questions today is why a private sector that is being subjected to these pro-competitive policies by government is itself, with respect to the public sector and public services, so essentially protectionist.

What the Private Sector Does

Institutions seldom change fundamentally in the absence of pressure from the outside. And as we have seen, there is little disposition currently within the public sector to change. The variables are money and program: more of one, more of the other; less of one, less of the other. The way of doing things does not change.

So the question is: What is the "pressure from the outside" that might now stimulate such change? A willingness (if it can be created) on the part of elected officials to move to a competitive strategy on the buyer side of the public-service market will be a necessary condition for this change. But even this will will not itself create the change. For that to occur, there must also be a diverse set of competent vendors eager to venture into the public-service market.

And where are these to come from? Probably they will in most cases have to come from the private sector. Only a few business firms are at the moment showing much eagerness to venture into the public-service market, or even to involve themselves deeply in the question (and the controversy) about institutional change in the public sector. But more may do so.

A private sector strategy would have two dimensions to it. One would involve the major private institutions in a policy role, in the discussion about the future of the public sector. Business leaders (whom John Gardner calls "the great signal-givers") would be giving signals that the need is for "spending smarter" and that a competitive challenge to the existing way of doing things must be the strategy for change. Foundations would be financing fewer projects that curse the darkness and more that attempt to light a candle.

The other dimension would involve an operational role. Business firms and nonprofit organizations, large and small, would be organizing new ventures into the public-service field, initially not so much because these could be commercially viable as because they would provide the needed leverage for change.

Some thinking of this sort has begun. Perhaps the best example is in a memorandum and proposal to the management of General Mills, Inc., from its former director of strategic planning, Verne Johnson. In summary, this was his analysis:

- The discontent with government performance is now at a serious level. Elected officials, unsurprisingly, have been responsive to this public mood. Public managers are dismayed and demoralized by this change, hope the mood is temporary, and are attempting essentially to "ride out" the storm. Their reluctance to change the nature of their operation in basic ways ensures that lower levels of spending <u>do</u> translate into reductions in the level of service.
- The private sector has for years been accustomed to delegating the initiative and the financing responsibility for social problems to government. It is concerned about the social programs, but uncertain that it wants to see its own role enlarged and unclear about how it might be effective.
- Private roles as well as governmental roles will therefore have to change. Private institutions will have to become more active and more effective in public policy issues. Giving must increase: The average of less than 1 percent of earnings for the major firms is indefensible. Substantial efforts must be made by business to strengthen the capacity of the nonprofit organizations that <u>are</u> major producers of public services for the public sector. This can perhaps be done through <u>private-private</u> partnerships that blend the corporations' strengths in capital and management with the strengths of the nonprofit organizations in commitment and in knowledge of the service field.

- This involvement will demand a new rationale. The expectation of future profits is one possible rationale. Another, perhaps more practical, is for the business firm to broaden the definition of philanthropy beyond the writing of checks, to include a businesslike venture undertaken with a less-than-competitive return on investment.

Johnson's proposal was accepted. General Mills did organize (jointly with a major operating foundation in the Twin Cities area) a venture into the design and development of alternative systems for the long-term care of the frail elderly, which is now under way.

What "The City" Means

Urban policies and urban programs need to be founded on some situation of strength. Too often, in the recent past, the municipal city has not been an adequate base of political, intellectual, or financial strength. Nor, for different reasons, have the states been. Most often, in recent years, the national government has tried to be that base of strength. Now, it is less able and less inclined to provide that support.

Taken as a whole, however, the urban region is itself a center of the resources needed for successful policies and programs. Much of the country's political and intellectual leadership, and much of the financial strength, is precisely in these regions, where 75 percent of the population lives.

We have not built on this foundation during the period when "urban policy" was assumed to mean the "urban policy of the national government." We can move to this base represented by the strength of the urban region, however, and probably will, as the federal government withdraws.

There is, of course, a dimension of "urban policy" that must deal with the relations between and among the major urban regions. This intermetropolitan dimension will have to be the responsibility of the national government. But many if not most of the issues of urban policy do arise on the intrametropolitan dimension within particular urban regions. If most of these issues could be handled effectively at that level, the national government would be in a better position to deal with urban-policy issues at the national scale.

Institutions for Issue-resolving

Most metropolitan areas are not now well organized for intrametropolitan cooperation. Most consist of a combination of county and municipal governments that are usually overlapping, legally and politically independent of each other, frequently competing; they make decisions, run programs, and build projects without much coordination among themselves or by any governmental organization with jurisdiction over the region as a whole.

In the 1960s and 1970s the national government induced the creation of a parastructure of planning coordination through requirements attached to the grants-in-aid going to urban local governments (Executive Order A-95). The theory was that the executive agencies of the national government would not approve requests for projects found by these review agencies to be inconsistent with their area-wide plans. In practice, few projects were ever found to be inconsistent with area-wide plans—not surprisingly, since the area-wide agencies were usually required to be composed of the local governments submitting requests. In 1981 the executive order was withdrawn. Most of the review agencies have been cut back. Some have disappeared. Most have changed their function, becoming service agencies for the local governments.

The initial effort to coordinate the intrametropolitan dimension of urban policy was founded on an essentially municipal definition of the "city." This "municipal" definition was politically realistic—and ineffective.

A new effort to assert the real and legitimate interest of the national government in the effective governance of the urban regions should rest instead on a metropolitan definition of "the city." And the strategy for bringing into being the governmental structure or process needed to set and to implement an urban policy within a metropolitan region should be a strategy that moves through the powers of state lawmaking. It is the states, after all, that have the power to create real urban governmental structure; and of the 50 largest metropolitan areas, in which more than half the American population lives, all but 8 are wholly or substantially within the borders, and therefore within the political jurisdiction, of a single state.

For the federal government this will be an exercise in diplomacy, extending what states are already doing. And in this effort it should seek the support of the private sector. Private institutions are more likely than the localities to understand—as did the organizers of the Town Meeting for Tomorrow in Hartford, Connecticut, in 1964 (and the Kellogg Company executives in Battle Creek, Michigan, in 1982)—that the competition most critical for their success is competition among the metropolitan regions, not between the municipalities within a region.

Institutions for Issue-raising

The effort to strengthen the system of governance at the state and local level should recognize that the governmental institutions for issue-resolving will be only as effective as the institutions in an urban region that perform the function of issue-raising. Because these will in most cases be nongovernmental (the newspapers, local magazines, radio and television stations, research and policy studies organizations, advocacy groups, discussion clubs), their creation and sustenance will depend on the understanding and support they can secure from the private sector. Many will be new and nonprofit organizations, often citizen based and specializing in the effort to understand the problems and opportunities of the region and to suggest what should be done about them. It is dangerous work—raising the questions that local policymakers would prefer not to see raised. It can seldom be done by business firms (especially by chief executives) or by foundations directly.

PROSPECTS

We do seem to be going through a basic change in the conceptions of government, of the private sector, and of the process of social action that took form about 1910. The rethinking that produced that conception called the New Nationalism took perhaps 30 years. If we set the beginning of the current rethinking in the 1960s, we would seem to be, as of 1984, just past half-way along.

Clearly no new conception has crystallized yet. Much of the activity is still a tearing down of the structure of preexisting ideas. Some of the materials of what may be the new structure are appearing, but they have yet to be assembled.

So, of course, there is no new "Osawatomie speech" yet being given. Perhaps it is a comment on the strength of the traditional ideas that we tend still to look to politics for this speech . . . for this leadership. If the need is now for a reconstruction of the institutions of the public sector, perhaps the initiative will come not from a political figure but from someone or from some organization somewhere in the private sector. Perhaps our tendency still to look to the candidates for president is itself a symptom of how little our rethinking has come to grips with the possibility that for the adaptation now required in our institutions the key concepts will have to be something other than governmental, will have to be something other than governmental, national, and executive.

Our system of political reporting still focuses heavily on, and reinforces, precisely those three concepts. But it is beginning to adapt. For some years now Neal Peirce has been covering state and local—and private—issues and actions successfully on a national basis (though his column does not appear in the leading Washington newspaper). National newspapers, and the emergence of new satellite-based national "networks" of television programming, are gradually forcing local newspapers and local broadcast stations away from the coverage of national and international affairs, where they are now at a marked disadvantage, and toward the coverage of their own communities in which they retain a competitive advantage.

One possibility, frequently raised, is that a revival of economic growth will relieve the pressures on government revenue and will permit a refunding of the traditional system of benefits and services. (Or that, even without a growth in the underlying economy, a shift to a sales or value-added tax at the national level might so increase government revenue as to permit a restoration of earlier levels of spending.) Would this not erode the interest in change and in fact make the "adaptation" unnecessary?

It might. Certainly a flow of new revenue would remove some of the pressure on elected officials to think about new and different ways of doing things. The question is whether this increase in revenue for domestic (and urban) programs is really likely, either from economic growth or from a shift to a consumption-based tax, given international competition and the obligations of the national government in other areas, which are forc ing policymakers in Washington toward a three-part strategy for coping with the projected deficit: cuts in defense spending, cuts in domestic spending, and tax increases.

Even if it did, however, two problems would remain. One is the reality of change, even (or especially) in a growing economy, and the question whether change can best and most easily be made through a process of political-governmental decision. This is the essence of the debate about an industrial policy. The other is the question of effectiveness and of values: The availability of more money for medical services is likely to intensify, not to diminish, the questions about change in that system; and additional revenues that improve neither the relationship between teachers and administrators nor the relationship between teachers and students may not diminish, either, the questions about change in education.

What is probably needed next, more than anything, is a broad discussion throughout the country that looks directly at the possibility that we are indeed moving to a new and different conception of governance; that sharpens the fundamental issues involved; and that focuses on the incentives and opportunities that need to be opened up to speed the introduction of the new and different ways of doing things, whatever these may be.

In such a disciplined process of thinking-through this problem, in the public sector and in the private, it ought to be possible to address constructively and creatively questions both about what government can and should provide and about what government can and should produce, and to do this in a way that reconciles the need both for equity and for effectiveness and efficiency in the system.

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