3 Public Policy and Administration in a Federal System

Policy making in America does not occur only at the national level. We are a federal system, which consists of national, state, and local levels. Interactions among these levels of policy making are critical in understanding the process and the results; in our federal system, policy-making roles are shared, and relationships among the levels are constantly changing. In the end, federalism is a contradiction: it tries to marry diversity and central direction.

A number of trends in intergovernmental relations (IGR) should be recognized:

- The emergence of local government, especially cities, as a full partner in the federal system
- The demand for a national urban policy since the late 1960s, but the failure of several administrations to come to grips with these issues
- The historic default of the states in policy leadership, although this is changing
- Increased competition for federal funding among the regions of the country, especially the “Frost Belt” and the “Sun Belt”
- Attempts at simplification to make federal grant programs work better because of fewer restrictions and regulations
- Calls for a “new federalism” by President Reagan to shift greater governmental responsibility to states and localities, which are now appearing in the 1990s.

Federalism has three principal dimensions: political, economic (or fiscal) and administrative. The political aspect is the most visible, as when President Clinton meets with a group of mayors about the nation’s drug problem. Administrative federalism often seems nearly invisible, as when specialists in criminal justice discuss state and local implementation of a federal program.

Economist and public executive Alice Rivlin has suggested that the federal government has taken on too much responsibility and should return some of its functions to the states. She also seeks a clearer division of responsibilities between the states and the federal government so she says, both levels could operate more effectively. Yet her own historical analysis of federalism and intergovernmental relations indicates that this has not been the case. In the final article here, Rivlin provides a short, analytical history of the way federalism has worked in this century.
In the second article in this chapter, two well-known experts in public administration examine the administrative dimension of federalism with greater attention than is typically found. The starting point for John DiMilio and Don Kettl is the Contract with America associated with Republicans in the 1994 congressional elections in the middle of President Clinton’s first term. Drawn from a much longer report, their discussion of possible devolution of authority in our federal system reaches well beyond the “contract.”

Some discussion questions for Chapter 3 are:

- What are the principal patterns of federalism—political, fiscal, and administrative—that have developed in the United States?
- Could the public policy roles between the states and the federal government be rearranged in a more rational way? What are the obstacles?
- What are the administrative realities of American intergovernmental relations as discussed by DiMilio and Kettl? How much does the average citizen know about them? How might management issues affect any attempt to alter our federal system?

The Evolution of American Federalism

ALICE M. RIVLIN

...For much of the twentieth century, power has flowed toward Washington and the functions of federal and state government have become increasingly intertwined. Why did this happen? Are the reasons for the blurring of distinctions between federal and state government still valid today?

CHANGING VIEWS OF FEDERALISM

To the Founding Fathers, the division of responsibility between the states and the federal government was a crucial issue with high emotional and intellectual content. Most of them believed that the states should retain a large measure of autonomy. Their experience with the English crown made them nervous about lodging too much power in any central government. Life under the Articles of Confederation, however, demonstrated that the national government could not function effectively if its powers were too narrow or if it depended on state contributions for revenue. Hence the drafters of the Constitution gave the federal government limited but quite specific powers, including the power to levy and collect taxes. To reduce misunderstanding, they later added a Tenth Amendment stating explicitly that “the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”

The Tenth Amendment seems clear enough, but the Constitution itself was a document drafted by a committee. It contained some language suspect that Congress should provide for “the general welfare.” Hence the Constitution did not permanently settle the controversies about which level of government should have which functions. It did, however, create a framework for debating and resolving conflicts between the federal government and the states that has stood the test of more than two centuries.

From 1789 to about 1933, all levels of government were small by modern standards, but the states were clearly more important than the federal government, except possibly in time of war. Moreover, the two levels of government usually ran on separate tracks, each in control of its own set of activities. Scholars called the arrangement “dual federalism.”

From the Great Depression through the 1970s, all levels of government expanded their activities, but power shifted to Washington. The federal government took on new responsibilities, and the distinction between federal and state roles faded. Scholars talked about “cooperative federalism.”

By the beginning of the 1980s, the drive for centralization had peaked and power began shifting back to state capitals. No new concept emerged, however, of how responsibilities should be divided. The current era has been called a period of “competitive federalism,” meaning the federal government and the states are competing with each other for leadership in domestic policy.

SMALL GOVERNMENT AND DUAL FEDERALISM

The national government created by the Constitution was charged with defending the new country and dealing with the rest of the world. It defended diplomats to foreign capitals, dealt with the Tripolitans, pirates, fought the invasions of British, invaded Mexico, and worked with Spain. Above all, it kept the nation together despite the disaster of the Civil War and the tensions reuniting North and South.

In the nineteenth century, much of the national government’s attention was devoted to acquiring territory and encouraging its settlement and development. Washington granted land to settlers and developers and encouraged the entry of new states. It fostered trade and interstate commerce and subsidized canals and railroads. It arranged the delivery of mail, managed national currency—often with conspicuous lack of success—and encouraged the growth of banks.

Sometimes economic development shaded into what is now called “sociopolitical policy.” For example, new states were given land grants for public schools. Between 1862 and 1890, the national government endowed land grant colleges to teach agriculture and the “mechanical arts” and later (in 1890) granted these institutions a modest annual subsidy. The federal government also engaged in a few public health activities early in its history, such as maintaining hospitals for merchant seamen. In general, however, social policy matters such as education, health, and aid to the poor were the concern of state and local governments or private charity.

By the end of the nineteenth century, the excesses of big business at the human cost of unfettered profit seeking were arousing public anger at creating pressure for federal intervention. Antitrust laws reined in monopolies. In the early stages of the twentieth century, the “redistributed” several
fought for corrective action. The federal government moved to regulate food adulteration, child labor, and other abuses. Progressives had more success in some states, however, than they did in Washington, in part because the courts took a narrow view of the role of the federal government.

Dual federalism was never absolute. Even in the nineteenth century, there were instances of federal-state cooperation on law enforcement or public works and modest overlaps of functions. Scope for intertwining of functions was minimal, however. The national government was remote from most citizens and its activities were few.

Until the early years of the twentieth century, the modest scope of the federal government did not require a broad-based tax system. Revenues from customs duties and the sale of public lands amply covered peacetime spending. Indeed, there was often a surplus of funds. A federal income tax, although used briefly to help finance the Civil War, was thought to be unconstitutional.

In 1913 the Constitution was amended to permit the federal government to levy an income tax, and the Federal Reserve System was created to put banking and credit on a more solid basis. The Federal Reserve was eventually to give Washington a powerful set of tools for influencing the economy by controlling money, credit, and interest rates. The federal income tax was ultimately to finance a huge expansion in federal activities. Both developments, however, lay in the future. In the 1920s, conservatives dominated Washington and the federal role remained limited. In 1929 total federal spending was under 3 percent of GNP. States and localities spent almost three times as much as the federal government.3

**TWO REASONS FOR FEDERAL GROWTH**

In the great Depression of the 1930s, the federal government took on new responsibilities, and its budget grew rapidly. Federal domestic functions continued to expand after World War II, even as America's worldwide responsibilities were growing (Figure 3-1). By the late 1950s federal domestic outlays exceeded amounts spent by state and local governments from their own sources.

This escalation of Washington's role is often seen as a single juggernaut of centralization, sweeping power toward Washington. Two sources of growth, however, should be distinguished. One was the evolving conviction, dramatically reinforced by the Great Depression, that new national institutions were needed to strengthen the economy and perform functions that states could not be expected to perform on their own. This conviction prompted a wave of institution building that included both purely federal activities and joint federal-state efforts.

A second source was the escalating perception, reinforced by the civil rights movement, that states were performing badly even in areas that almost everyone regarded as properly assigned to them. Frustrated with the states, reformers urged the federal government to augment state spending and redirect state and local priorities. The result was a rapid proliferation of grants to states—and directly to their localities—designed to strengthen their capac-

**BUILDING NATIONAL INSTITUTIONS**

The Great Depression brought the economy close to collapse and radically altered the role of the federal government. The stock market crash of October 1929 presaged an economic freefall. Factories and businesses closed, million of workers lost their jobs, the banking system tottered, and citizens were frightened and insecure. President Herbert Hoover, unable to stem the tide of economic disintegration, lost the 1932 election in a landslide to Franklin D. Roosevelt, who proclaimed a "New Deal."

The Roosevelt government took over in mid-crisis. Its first task was to get the economy functioning again. To stop a disastrous run on the banks, it closed all banks and then reopened them under new rules. Over a quarter of the labor force was unemployed. The federal government handed out emergency relief. It put people to work on a vast array of projects from building dams and schools to painting murals and recording folk music. The federal government created institutions to buy homes and farm mortgages from hard-pressed banks and reschedule them so families could retain their homes and farms. It lent money to businesses on favorable terms and prodded industry to produce and hire. These efforts helped to revive the economy, but unemployment was still high at the end of the 1930s. Only World War II got the economy booming again.

The Great Depression revealed weaknesses of a highly unregulated decentralized economic system. It changed the public's view of the desirable
many of the rules, but left the level of contributions and benefits up to states themselves.

Social insurance proved a popular, successful, and enduring concept. Of its popularity relates to the contributory feature and the specificity of benefits. People feel they are paying for identifiable benefits that will be theirs if they need them. They object less to social insurance taxes than to general taxes that support government services whose benefits are widely dispersed and hard to identify.

Welfare Programs

Social insurance was a response to the economic hardships of the 1930s but could not be an immediate solution. Workers had to build up eligibility for future benefits. Meanwhile, people were destitute. State welfare programs were totally swamped. To meet part of the need, the federal government put in place a set of means-tested welfare programs to provide income to some families and individuals. The elderly, blind, and disabled and women supporting children were entitled to payments if they could prove that they had inequitably means. Like the social insurance programs, these welfare programs were "entitlements": people who met the requirements specified in the law were entitled to benefits. However, the benefits were paid out of general government revenues, not out of a fund to which beneficiaries contributed.

The welfare programs were expected to become less necessary as social insurance coverage widened and gave people who were unemployed, retired, disabled a means of support. The hope was that widows with children would increasingly be covered by survivors' benefits under social security; the subsidized growth of the number of divorced and single women with children was not anticipated.

Social insurance did reduce poverty, but the means-tested programs did not disappear. Indeed, rising concern about low-income families (especially women with children) prompted not only the expansion of aid to families with dependent children (AFDC), but the addition of other federal means-tested programs in the 1960s and 1970s, including food stamps, expanded housing assistance, and medicaid (the joint federal-state program that finances medical care for low-income people).

Funding and responsibility for welfare programs were shared by federal and state governments (and in some states, by local governments as well): complex and interlocking ways. In general, the federal government made the rules about who would be eligible for benefits on what conditions, but state the actual benefit levels and administered the funds. The federal government matched the money paid out by the state according to a formula that gave more federal money (per dollar of state money) to poorer states. Benefit levels varied substantially, with poor states generally providing low benefit despite proportionately higher assistance from the federal government.

Stabilizers for the Economy

Social insurance and welfare programs not only provided income to individuals and families facing economic disaster, they also made economic disaster less likely. If economic activity dropped off sharply, the downward spin...
welfare would be able to buy necessities and pay their rent or mortgages. This increased purchasing power would bolster the income of producers and prevent layoffs of workers and forced sales of homes. Thus both welfare programs and social insurance would act as automatic stabilizers for the economy.

Other National Initiatives

Growing federal activities cost money, but Washington was not short of funds. Federal income tax rates were raised to high levels to finance World War II, and withholding was introduced in 1943. Both personal and corporate taxpayers got used to paying a significant portion of their income to the federal government. Moreover, in the good news period . . . personal incomes and business profits rose rapidly. Even after taxes, almost everyone was doing well. The federal tax system was generating so much revenue that new programs could be funded while tax rates were reduced. Moreover, the share of GNP devoted to defense declined gradually after the Korean War buildup in the early 1950s. Domestic spending growth could be accomplished without commensurate increases in the overall federal share of GNP.

By 1960 the federal government’s budget for domestic programs alone had grown to 8.1 percent of GNP. Between 1933 and 1960, the role of the federal government had changed from that of a minor player on the domestic government scene to a major one.

INFLUENCING AND REFORMING THE STATES

Despite the growth in some types of federal programs, many types of public services were still considered very much the business of the states until the early 1960s. Elementary and secondary education, health services, police and fire protection, sanitation, social services, and most other direct services to citizens were still viewed as overwhelmingly state and local matters.

Only occasionally did Washington intervene in these areas to further an objective deemed worthy of national attention. For example, the federal government began giving the states grants for vocational education programs in high schools as early as 1917. In the late 1950s, when the Soviet Union’s Sputnik launch focused attention on technical education, Washington set up grants programs to improve science, mathematics, and language teaching in the schools (the National Defense Education Act). These “categorical” grant programs accumulated slowly over the years and then exploded in the 1960s and 1970s.

In the 1960s, President Lyndon B. Johnson’s Great Society programs reflected mounting dismay that the states were not performing effectively and were shortchanging the poor, urban dwellers, and minorities. States and their local governments were seen as lacking the means and the capability to provide services in a modern society. Federal programs were designed explicitly to change the way states performed their own functions.

The Sad State of the States

Dissatisfaction with the states had been building for several decades, starting in 1902. During the New Deal, state governments were unable to cope with the responded with a blizzard of new activity. Some began to regard the states anachronisms that might eventually fade from the American governmental scene. Political scientist Luther Gulick declared in the depths of the Great Depression, “It is a matter of brutal record. The American State is finished. I do not predict that the states will go, but affirm that they have gone.”

The challenges of World War II further augmented the powers of the federal government, and activists continued to turn to Washington to deal with perceived needs of the postwar economy for housing, hospitals, and an interstate highway system. Bashing the states was a popular sport. Writing in 1957, Robert S. Allen characterized state government as “the tawdiest, most incompetent and most stultifying unit of the nation’s political structure.”

By the early 1960s, when national concern about minorities and the poor was rising, states were seen as perpetrators of discrimination. The south states were overtly racist, deficient of federal efforts to desegregate schools and other public facilities and to ensure the participation of all races in the political process. Moreover, the indictment of states went far beyond the South and beyond issues of race and poverty. As Frank Trippett put it: “One glariest truth of the times is that most of the perplexing domestic problems confronting the country today would not exist if the states had acted.”

Sanford, a former governor of North Carolina, concurred: “Because many groups and people have encountered evasion of duty by the state, they felt that they had no choice but to try the road to Washington. The trek Washington could have been expected, for government is not static.” Sanford, a strong believer in the necessity and feasibility of state reform, conceded, nothing much can be done, then indeed the states will soon be finished.

The weakness of state government involved both the executive and legislative branches. In many states, governors had relatively few powers a short term of office. They had small staffs composed of political appointees with limited professional qualifications. They presided over executive branch departments that were often fragmented, poorly organized, and staffed with bureaucrats who had limited training and education and few of the tools a skills of modern government. The office of governor itself often attract “good-time Charlies” at the end of careers in the private sector. Able politicians gravitated toward the federal government, where there was more scope for their talents.

State legislatures, before the reforms that began in the 1960s, were from models of strong democratic institutions. Legislatures often met for only a few weeks every other year. Members served part time, were paid little, and were dependent on their primary jobs. They had hardly any staff, usually even clerical support.

Rural areas typically dominated the legislature. Cities and their growing suburbs were underrepresented, as were minorities and lower-income people. Rural overrepresentation was often built into state constitutions that required equal representation of sparsely populated rural counties and densely populated urban ones. In many states, entrenched rural interests had simply prevented reapportionment of the legislature for years or even decades. 1962 Tennessee had not reapportioned its legislature since 1901. Eight states had not redistricted in more than fifty years, and twenty-seven states had not redistricted in more than twenty-five years. "Some of the results
half the population and 5 of 38 Senate seats; the Senate districts ranged in population from 10,000 to 935,000. Los Angeles County had 40 percent of California's population and only 1 of 40 seats.711

Although larger, richer states, such as New York and California, tended to have more capable governments, states in general did not inspire confidence. They were seen as "errand boys" of the federal government, helping to carry out policy formulated at the national level. Even this role diminished as the federal government increasingly bypassed states and dealt directly with local governments.

The Civil Rights Revolution

The civil rights movement, which gathered steam in the 1950s and reached a climax in the 1960s, profoundly altered the relationship of the federal government to states and localities. The Civil War, nearly a century earlier, had freed the slaves and amended the Constitution in an attempt to guarantee equal rights for all races. In fact, however, blacks, especially but not exclusively in the South, were denied basic political rights (including the right to vote), excluded from public facilities and services, discriminated against in employment, educated in separate and inferior schools, denied access to higher education, and otherwise relegated to second-class citizenship and economic deprivation.

After World War II, growing outrage on the part of blacks and a rising proportion of the whole population swelled into a national movement. State segregation laws were challenged in the federal courts under the U.S. Constitution, and the federal government passed legislation spelling out equal rights in greater detail. In 1954, in Brown v. Board of Education, the Supreme Court rejected the idea that separate schools could be regarded as equal. Gradually, schools, universities, and other public facilities were desegregated, but not without dramatic confrontations between state and federal officials.

Enforcing civil rights laws involved the assertion of federal authority in schools, parks, hospitals, restaurants, hotels, and other facilities that had not heretofore been seen as areas of federal concern. Efforts to right past wrongs involved increasingly complex intrusion on state and local autonomy. Even after legal segregation of school systems was abrogated, for example, de facto racial segregation remained because blacks and whites lived in different neighborhoods. As a result, the courts searched for ways of achieving racial desegregation of the schools by redrawing school boundaries and busing children out of their neighborhoods.

The War on Poverty

The civil rights movement, by focusing attention on economic as well as political deprivation of minorities, aroused concern about the general prevalence of poverty. Americans rediscovered that even in their prosperous country a large population, in both rural and urban areas, lived at the margin of subsistence. The poor included low-wage workers in agriculture, manufacturing, and service industries, dwellers in depressed areas such as Appalachia and the Mississippi Delta, native Americans, and Hispanics. Blacks were only

In 1964 President Johnson called for a war on poverty. He sent an avalanche of proposals to Congress designed to change the lives of the poor in a variety of ways. Most were enacted in a frenzy of legislative activity that rivaled the early days of the New Deal.

The Investment Strategy The strategists in the war on poverty saw the poor as mired in a cycle of poverty from which they were ill equipped to escape because of bad health, lack of skills, and lack of experience, both in the workplace and in the political process. They emphasized an investment strategy providing the poor not with money, but with services that would help adults and children break out of the poverty cycle. Providing these services to poor involved federal intervention in a whole range of government functions previously regarded as state and local prerogatives.

A prime example of the investment strategy was the Head Start program whose purpose was that because poor children came to school less read than middle-class children, they fell behind and were never able to catch up. Head Start provided intensive preschool education to improve the children's health, and nutrition of low-income children and enhance their chances of succeeding in school. Other federal programs provided special services for low-income youngsters to help them progress through school, get jobs, and go to college. (Principal programs included follow through, teacher corps, Title I of the Elementary and Secondary Education Act, job corps, neighborhood youth corps, and upward bound.) In addition, neighborhood health centers offered health resources in areas with few doctors and medical facilities. Mental health services helped poor people obtain redress of grievances and claim benefits which they were entitled under the law. Community action programs, perhaps the most controversial of all, tried to mobilize the poor to be more effective politically in their own behalf.

Some programs were intended to demonstrate that a broad range of coordinated services could turn a deteriorating area into an improving one. Programs in Los Angeles, Detroit, Washington, and other big cities in the late 1960s directed attention to blighted urban areas. Urban renewal, model cities, other programs channelled federal funds directly to city governments.

The investment strategy of the war on poverty involved a great many programs and projects. Most were relatively small, however. They reached or affected a smaller minority of the population in poverty and did so in ways that were usually fleeting to make a life-changing difference.

Income Strategy Proposals Many people concerned about the poor thought the investment strategy was too slow and indirect. Better education, beginning in preschool, might eventually enable poor children to earn more, four-year-olds would not be in the labor force for about fourteen years. Meanwhile, they were growing up amid deprivation and blight. What the poor needed most urgently was money—a means of paying for necessities such as food, housing, and medical care.

Some scholars and politicians were attracted to the idea of a guaranteed income, sometimes known as a negative income tax (NIT). They believed existing welfare programs were demeaning and undermined incentive work because family earnings were deducted from the welfare grant. A
a family with no income would be guaranteed a minimum income and would be encouraged to work because the grant would be reduced (or "taxed") by less than their earnings. Thus an NIT would both provide income for families who could not work and encourage those who could work to do so. Some thought that such a system could be administered by the Internal Revenue Service (IRS). Families with adequate incomes would pay positive taxes, those with low incomes would get checks (or negative taxes), and only the IRS would know the difference.

The NIT was an intriguing idea, although it would have been more expensive and difficult to administer than its initial proponents imagined. Efforts to convert President Johnson to the idea failed. He was committed to the investment strategy, especially to opening educational opportunities for poor children, and had little interest in reforming welfare. In any case, by the end of Johnson's presidency in 1968, escalating defense spending was squeezing domestic programs. The NIT was ruled out by cost as well as philosophy.

To the surprise of most liberals, President Richard M. Nixon endorsed a welfare reform proposal in 1969 that bore striking resemblance to an NIT. Nixon proposed guaranteeing a minimum income to all families and encouraging work by reducing the guarantee less than the amount of earnings. The proposed guarantee level was below the welfare benefits paid to AFDC families in urban states, but above the benefits in the South. The proposal would have put a national floor under income for the first time and substantially benefited low-wage workers.

President Nixon's family assistance plan, as it was called, passed the House of Representatives twice, but was defeated in the Senate by a coalition of conservatives, who thought it too generous to the poor, and liberals, who thought it not generous enough. The idea survived in the supplementary security income program, which was essentially an NIT for people who were elderly, blind, or disabled.

Despite the absence of an income strategy in the war on poverty and the failure of Nixon's reform, welfare programs grew rapidly in the 1960s and even faster in the 1970s. Collectively, these programs had a much bigger impact on federal budgets than the investment strategy programs. AFDC increased as larger proportions of the poor applied for aid and benefit levels rose. Medicaid, passed at the same time as medicare, provided health benefits for many low-income families, especially those eligible for AFDC. The food stamp program, which went to a broader group of low-income people than AFDC, grew rapidly. Public housing and other housing subsidies for low-income families increased.

The Proliferation of Grants

Federal activism in the 1960s and 1970s spread from poverty and civil rights into many other areas. Turning to Washington for help became routine. Pollution, transportation, recreation, economic development, law enforcement, even rat control, evoked the same response from politicians: create a federal grant. National concern shifted from one problem to another, but existing grants were never terminated. The result was an accumulation of more than 500 categorical programs, each with detailed rules, formulas for out and overseeing the program, and beneficiaries and professional grew with an interest in perpetuating and enlarging the grant.

Some critics worried that the pervasiveness of federal grants reduced state and local autonomy. Others were more concerned that the proliferation of grants allowed state and local authorities to do whatever they wanted; send the bill to the federal government.

States and cities learned to tailor their budgets to maximize federal fitting. Unfortunately, they sometimes neglected more routine activity. According to New York City Mayor Edward I. Koch:

Left unnoticed in the cities' rush to reallocate their budgets so as to draw down maximum categorical aid were the basic service-delivery programs. . . . Roads, bridges, and subway routes were an exciting commitment to the future, but they were launched at the expense of routine maintenance to the unglorious, but essential, infrastructure of the existing systems.

Another problem was that less affluent jurisdictions often lacked savvy or the staff to take full advantage of the federal largesse, especially not if they needed the support of project grants for which they had to compete. Wealthy states and cities were able to put together more sophisticated or better-organized project proposals.

Revenue Sharing

In 1964, Walter Heller, chairman of the Council of Economic Advisers under the Johnson administration, proposed "revenue sharing" to channel federal money to the states without the detailed specifications of categorical grants. Revenue sharing responded to several problems besides the growing concern about categorical grants. Needs for public services at the state and local levels were rising more rapidly than revenues; state and local revenues grew more slowly and fell more heavily on low-income people than the federal income tax; federal income tax revenues tended to rise faster than the need for federal spending; and poor states could not be expected to bring services up to acceptable national standards without help. Revenue sharing would address all these concerns by channeling a portion of federal income tax receipts to the states—strings attached—with low-income states receiving disproportionate share.

President Johnson rejected the revenue sharing proposal. He favored social programs managed directly by Washington or categorical grants with tight federal controls. During his administration, the number of categorical grants exploded, and the revenue sharing idea remained buried deep in White House files.

President Nixon, however, was attracted to revenue sharing, which well with his "New Federalism" philosophy of increasing state autonomy. His proposal, known as general revenue sharing, was enacted in 1972 with the enthusiastic support of state and local politicians.

General revenue sharing funds were specified in the law, not tied to federal income tax. The money was disbursed under a formula that benefited poor states disproportionately. The money was divided into two parts, one to be spent at the state level and one to be "passed through" to local governments. The earmarking of a local share reflected the fears of mavors that
Rules were also introduced to try to prevent the recipients from substituting federal money for existing funding. That revenue sharing was popular with state and local officials is hardly surprising. It provided financial support and made no onerous demands. It was not, however, equally popular with members of Congress, who preferred more control over how federal funds were used. Hence categorical grant programs continued to grow in the 1970s, while revenue sharing did not.

**The Reagan Revolution**

President Ronald Reagan was a conservative former governor of California with strong views about the role of government, at both the federal and state levels. He won a landslide victory over President Jimmy Carter in 1980 after vociferously attacking federal domestic spending in his campaign and advocating deep cuts in federal income taxes, more defense spending, and a balanced budget. Within weeks of taking office, Reagan confronted Congress with a drastic budget proposal involving major increases in defense spending, deep cuts in domestic programs, and reductions in federal income taxes over a three-year period. Congress, awed by the electorate's evident desire for change and skillfully manipulated by Reagan's energetic director of the Office of Management and Budget, David Stockman, passed both the tax and budget proposals with astonishing rapidity.

Reagan administration budget policy profoundly influenced the future of relations among federal, state, and local governments. As Richard Nathan and Fred Doolittle put it:

> The cuts made in grants-in-aid in Reagan's first year in office were historic. This was the first time in over thirty years that there had been an actual-dollar decline in federal aid to state and local governments. The cuts produced a 7 percent reduction for fiscal year 1982 in overall federal grants-in-aid to state and local governments. This amounted to a 12 percent decline in real terms. Federal grants were both reduced and restructured. Categorical programs were grouped into block grants that gave state and local governments more latitude in spending the funds. The Reagan cuts fell heavily on the poor, especially the working poor, and hit cities more dramatically than states. Most of the reductions in domestic spending came during Reagan's first year in office. Subsequent requests for additional cuts met increasing opposition from Congress and the public. Some of the funds cut in the initial reductions were later restored, and modest increases in grants occurred late in the 1980s. Huge federal deficits, however, kept downward pressure on federal spending, especially discretionary spending, which is easier to control than entitlements. Very few new federal grant programs were created in the 1980s. Federal aid to state and local governments (as a percentage of GNP, the federal budget, or state and local spending) stayed well below the level of the late 1970s. The pattern of increasing state and local dependence on federal grants had been broken.

One of the casualties of the Reagan revolution was general revenue sharing. Opponents pointed out that huge deficits left no federal revenue to share. Congressional support for revenue sharing was weaker than support for the first the state and then the local components of revenue sharing were eliminated.

Unexpectedly, the Reagan cuts energized state and local governments. The cuts created what Richard Nathan has called "the paradox of devolution." With less federal help, states, and to some extent localities, were forced to strengthen their own capacities and resources to meet the rising social problems of the 1980s. The federal pullback came at a fortunate moment after two decades that had greatly enhanced states' ability to move into breach.

**THE STATES RISE TO THE CHALLENGE**

The dissatisfaction with state government that reached a crescendo in the 1960s not only prompted an explosion of federal activity, it also brought wave of reform in the states themselves. Goal of the federal government and partly by pressure from their own citizens, states took steps to turn themselves into more modern, responsive, competent governments. By the time the Reagan revolution of the 1980s thrust new responsibilities on them, state governments were far more ready to rise to the challenge than they would have been two decades earlier.

**Executive Branch Reforms**

One theme of the state reform movement was strengthening the capacity of governors to provide state leadership. Colonial antagonism toward a strong executive had left a legacy of state constitutions with strict separation of powers between the executive and legislative branches and carefully circumscribed gubernatorial powers. As a result, governors frequently lacked tools and resources needed to lead a modern state.

Presidents, of course, faced the same problem for the same reason, but the first half of the twentieth century there were major improvements in the organization and staffing of the White House. For example, the Bureau of the Budget (later called the Office of Management and Budget) was created in 1921 and the Council of Economic Advisers was established in 1946.

Efforts to improve the capacity of governors came later. In the early 1960s, many governors served only two years, not long enough to articulate and carry out a strategy for state action. Many were lame ducks, prohibited from succeeding themselves. Many governors had limited powers of appointment. Other state officials were directly elected and had their own power bases. Most appointments were made by boards or commissions whose members were elected, controlled by the legislature, or served fixed terms from which they could not be removed. Governors often had neither the authority nor the means to prepare an executive budget for the legislature. Indeed, states' chief executive officers frequently lacked powers that CEOs of corporations would regard as absolutely essential to leadership and effectiveness.

A common reform was shifting to longer terms, as well as lifting restrictions on succession. In 1955 governors had four-year terms in only twenty-nine states. By 1988 the number had risen to forty-seven. In the same period the number of states in which governors were barred from a second term...
Other reforms shortened the ballot and reduced the number of independently elected state officials. A widely quoted report by the Committee for Economic Development in 1967 urged that only two state executives, the governor and the lieutenant governor, be elected and that they run as a team from the same party, like the president and vice president. More states now elect the governor and lieutenant governor as a team, but the effort to reduce the number of elected officials has met with only modest success. Over the period 1960-80, the number of states electing four or fewer executives rose only from three to nine. Between 1956 and 1988, the number of separately elected officials besides the governor dropped from 709 to 514, still an astonishingly high average of more than 10 per state. Some governors obtained more formal powers of appointment and removal. Longer terms also tended to increase the governors' control of boards and commissions whose members are appointed for fixed terms.

During this era there were also substantial increases in the size and professional qualification of staffs, with the average size of the staff rising from eleven in 1956 to forty-eight in 1988. Governors also created budget and planning offices charged with developing an executive budget reflecting the governor's priorities, formulating longer-term plans for the state and its government, and monitoring the effectiveness of state programs. Almost all governors now prepare an executive budget and submit it to the legislature with extensive backup analysis.

In this period, state agency officials, like the staffs they supervised, became visibly more professional. They had more degrees and were more likely to be career civil servants. State officials became more diverse, although women and minorities are still underrepresented at the top of state governments.

Governors themselves have been described as a “new breed”—younger, better educated, less likely to be lawyers, more likely to seek careers in public service. Many of them have been state legislators or agency executives. Many go on to the U.S. Senate or to other federal positions.

None of these changes, of course, guarantees that governors will be successful or effective. Leadership qualities in the short supply at the state, as at the federal, level. Judgments are made, as well as formal qualification and power of office, play an enormous role in determining a governor's effectiveness. Nevertheless, an able governor now has far more opportunity in most states to formulate and carry out policy than he (and now occasionally, she) would have had in the early 1960s.

Reforming the Legislative Branch

Reform of state legislatures in the 1960s came partly in reaction to stronger governorships. The American system of separation of powers invites such swings of reformist zeal from one branch to the other. The creation of the Congressional Budget Office in 1974 was in part the result of the strengthening of the presidential budget-making capacity in the 1960s and creation of policy analysis staffs in cabinet agencies. Congress needed professional help in responding to the increasingly sophisticated presentations of the president's staff. State legislatures, after the strengthening of governors' offices,

A more urgent impetus, however, came from the Supreme Court. In *Bak v. Carr* (1962), the Court indicated its willingness to hear cases in which vote in a state claimed that malapportionment of their legislature denied them equal protection of the laws under the Fourteenth Amendment to the U. Constitution. Then in *Reynolds v. Sims* (1964) the Court took the startling position that equal protection required both houses of the state legislature to be apportioned on a population basis, despite the fact that the U.S. Constitution specifies equal representation for all states in the U.S. Senate regardless of population. States rapidly reapportioned their legislatures to conform to the court principle of “one person, one vote.” This redrawing of the lines, now repeated every ten years, brought a new and far more diverse group of legislators—state capitols and added pressure for other kinds of reform.

In general, reapportionment favored metropolitan areas, especially growing suburban communities. It put urban problems on state agendas and eventually led to increased state aid to cities. Political fallout varied. Democrats gained more seats in the Northeast and Midwest, but Republicans benefited in the South.

At the same time, the work load of legislatures was increasing. Short sessions every other year were no longer adequate. More and more states found that part-time citizen-legislators were unable to cope with the demands of modern state activity. Legislative sessions were lengthening, and pay had to be raised to compensate legislators who were now spending a substantial part of their working hours on state business. Legislatures also began to demand better working conditions and more professional and clerical assistance. Members needed staff both to service constituent requests and to work on increasingly technical legislative matters. Committees became more active and utilized more professional staff.

**Strengthening State Revenue Systems**

In recent years, states have strengthened and diversified their revenue systems. States and localities generally have become much less dependent on property taxes, which used to be the sole source of local revenue and an important one for states as well. Sales taxes, whose bases have been significantly broadened, now bring in more total revenue than property tax. More important, many states and some cities have begun to rely more heavily on income taxes. States and localities have also turned to revenue to a broad range of fees and charges designed to make the actual users of state and local services pay a larger share of the costs. Between 1960 and 1990, property taxes dropped from 37.7 percent to 21.8 percent of the revenue of state and local governments raised from their own sources, while individual income taxes grew from 7.5 percent to 14.8 percent and fees and charges grew from 16.8 percent to 28.9 percent.

The trend to broader-based state and local revenue systems in this period has been called “one of the most dramatic turnarounds in the annals of American public finance.” Although states and localities are still hard pressed to raise enough revenue to pay for the services demanded by their citizens, these revenue systems are stronger and more responsive to economic change.
Moreover, states and localities have raised more revenue, despite frequent protests from taxpayers. State and local revenue, exclusive of federal grants, has gone up from 7.6 percent of GNP in 1960 to 10.3 percent in 1990.26 Meanwhile, the federal government's fiscal strength has declined. There was a time when revenues from the highly progressive federal income tax tended to grow faster than the economy as a whole. Rising incomes moved taxpayers into higher brackets, where they paid a higher proportion of their income in tax. Even if people's real income had not increased, inflation tended to increase the government's revenue by pushing taxpayers into higher brackets. This phenomenon was known as "bracket creep." 

In 1981, however, the federal income tax was made less progressive by reducing rates on high incomes. Moreover, beginning in 1985 the tax brackets were adjusted for inflation to remove bracket creep. Hence federal revenues no longer grow faster than the economy. Moreover, except for social security payroll taxes, federal revenues as a share of GNP have been declining. Federal revenues (excluding social security taxes) fell from 15.4 percent of GNP in 1960 to 12.0 percent in 1990....

MANDATES

The federal government's own fiscal weakness has not made it any less eager to tell states and localities what to do. Indeed, when its ability to make grants declined, the federal government turned increasingly to mandates as a means of controlling state and local activity without having to pay the bill.

"Mandates take several forms. Some are direct orders to states and localities to comply with certain rules (such as waste-water treatment standards) or face civil or criminal penalties. Some of them are cost-cutting requirements functionally attached to federal programs (compliance with anti-discrimination rules or minimum wages). Others impose conditions on a whole system (access for disabled people to mass transit or schools) as a condition of receipt of federal grants for any part of the system.

In the 1960s and early 1970s, when federal money was flowing to states and localities in increasing amounts, the recipients expressed little concern about the conditions attached to grants. As money tightened, however, and mandates became more pervasive and expensive, state and local officials became increasingly strident in criticizing federal mandates. David R. Beam noted that the character of the dialogue went from "cooperative" to "other 'c' words—like compulsory, coercive, and confiscatory."27 Complaints from the state and local level were hardly ever about the purposes of federal mandates, which were acknowledged to be laudable. Rather, they were about the federal government's asserting the authority to write complex and costly regulations that then had to be implemented by states and localities. "Cities and states feared that they were becoming the 'field hands of federalism'—simply, tools for implementing national policy directives in environmental protection, race, sex and age nondiscrimination, handicapped access and education, bilingual education, health planning, and other areas."28

Mayor Koch expressed the views of many state and local officials on the receiving end of multiple federal mandates in a satirical list of rules that involved"; (2) "Mandates need not be tempered by the lessons of local experience"; (3) "Mandates will spontaneously generate the technology required to achieve them"; (4) "The price tag of the lofty aspiration to be served by mandate should never deter its imposition on others."29

Although state and local governments have challenged federal mandates in the courts in recent years, they have generally lost. New mandates continue to be added. Among the most costly, though the cost has been shared by the federal government, are mandates for additional services to low-income families under medicaid.

Mandates add to citizen confusion about who is in charge. When the federal government makes rules for states and local officials to carry out, it is not clear to voters who should be blamed, either when the regulations are lax enforced or when the cost of compliance is high.

WHETHER FEDERALISM?

In the last decade, the tide of centralization has turned and the balance power has generally shifted from the federal government toward the state. The states have strengthened their capacity for governance and their revenue systems, while the federal government has found itself overstretched at short of funds. The intertwining of roles, however, has not diminish Federal grant programs have received less funding, but their number remain huge—a recent publication lists more than 600 federal grant programs for state and local government.30 Mandates have been used to enforce federal policy when funds were limited. No new concept of federal and state roles has yet emerged....

Notes

4. The food stamp program is an exception. The funds are federal and the bene formula is the same in all states.
10. Sanford, Storm over the States, p. 35.
12. Suppose the guarantee were $8,000 a year for a family of four. If the tax rate were 50 percent and the family earned $16,000, the grant would be reduced by $5,000.