

THE CHANGING RELATIONSHIP BETWEEN FEDERAL, STATE AND LOCAL GOVERNMENTS

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In his 1996 *State of the Union* speech, President Clinton boldly proclaimed that the “era of big government is over.” Clinton was not so much announcing his own policy as acknowledging a reality he had little choice but to accept.

Measured from several perspectives, it is undeniable that the trend toward centralized government—begun with the New Deal and accelerated by the Great Society—has run its course. As evidenced by anti-incumbent voting patterns in recent elections, public attitudes toward the federal government clearly have turned sour. Trust in the government is at a low level. Federal budget deficits have limited the federal government’s ability to respond to social needs. The arteries of the federal government have been clogged. Entitlement spending has crowded out other domestic initiatives, leaving us with a government that overpromises and underdelivers.

In a related vein, creative new leaders have been elected at the state and local levels. Republican governors and mayors have replaced Democrats in response to voter desire to attempt new approaches to problems that have not been adequately addressed by Democratic solutions.

Let us take a closer look at these developments.

As compared to 30 years ago, public trust in government has declined dramatically. Today, fewer than 20 percent of voters express confidence in the government to “do the right thing most of the time.” Thirty years ago nearly 80 percent of all voters trusted the government to do the right thing.

I believe that among the causes is a factor known as hyperpluralism. As defined by Jonathan Rausch in his book *Demosclerosis*, hyperpluralism results when too many groups come to think of government only in terms of what benefit they can secure from the public treasury. An explosion of government programs, particularly since the 1960s, has created interest-group politics. Groups are making demands on government—many of which are meritorious when examined individually, but break the bank when aggregated.

Rausch explains that this hyperpluralism leads to a clogging of the arteries of government. He writes, “The trouble, though, is that in today’s world each program instantly generates an interest group and each interest group lobbies to keep its own program open, drumming up campaign contributions and producing stacks of studies ‘proving’ the program’s success. In the end, we get stuck with all [of the] programs

instead of finding the best one, and before long they're working at cross-purposes and shutting out any new rivals."

One lobbyist put it frankly: "There is nothing more permanent in this town than a temporary program." From my own experience, I can verify the statement.

For example, the Low Income Heating and Energy Assistance Program was established to protect low-income households against a steep hike in fuel costs. The energy crisis faded and prices returned to normal, but the program lives on now almost two decades later.

The helium reserve was established to guarantee the government an adequate supply during World War II. Fifty years later, in the aftermath of the Cold War, the reserve remains in the federal budget.

The Civilian Marksmanship Program was initiated in response to the poor rifle skills exhibited by recruits during the Spanish-American War. In large part, it continues to this day because the subsidy has underwritten an annual rifle competition sponsored by one of the most powerful interest groups in the nation, the National Rifle Association.

There is an old adage: "Nothing is a priority when everything is a priority." By succumbing to myriad demands to add one more and then one more and then yet another program to the federal budget, Congress under Democratic control essentially and eventually discredited the government by promising too much and delivering a bureaucratic mumble-jumble that delivered too little.

Deficit pressure also has dampened public trust in government and weakened voter support for new initiatives. The federal budget has not been in balance since 1969. Deficits soared from \$65 billion in the last year of the Carter administration to twice that amount in the first year of the Reagan term. Throughout the remaining years of the Reagan-Bush era, deficits ranged from \$150 billion to \$290 billion. Deficits have dominated public policy deliberations for more than a decade. Voter awareness of and anxiety about a federal government that spends beyond its means have fueled animus toward policymakers and bureaucrats alike.

In response, initiatives such as the Gramm-Rudmann-Hollings budget act and the "pay as you go" provisions of the 1990 budget reconciliation bill have been instituted to provide fiscal discipline. The demise of the Catastrophic Health Care bill in 1989 demonstrates the difficulty of advancing new and expensive programs in a pay-as-you-go environment. The Clinton health bill faced a similar demise for much the same reason: Budget procedures demanded that the proposal be honestly financed. When the true costs of the program were openly debated, the public recoiled from the prospect of creating a new and large federal bureaucracy.

Existing entitlement programs, however, are not subject to the same budget

disciplines. This has resulted in an inequitable outcome that serves to the advantage of well-established entitlement programs and at the expense of other budget categories. Accordingly, as the deficit has been reduced, health entitlements have continued unchecked, while spending reductions have been applied to vulnerable discretionary domestic programs.

Effectively exempted from budget scrutiny, Medicare and Medicaid have averaged 10 percent growth in recent years. Largely for political purposes (e.g., note the “Medi-scare” tactics that were at play during the current campaign), serious attempts to restrain spending on entitlements have been nonexistent or unsuccessful. For their part, Democrats have offered modest reforms or cost-shifting initiatives that do little to address the impending shortfall in the Medicare program. In fact, President Clinton vetoed the Republican budget, specifically citing Medicare and Medicaid in his rationale. (The so-called “blue dog” Democratic budget is a notable exception to the approach taken by most Democrats on the issue of health entitlements.) Republicans did make a brave attempt to reduce the growth rate in Medicare and Medicaid, but they foolishly tied their health reforms to a budget that also included huge tax breaks. Consequently, they have been placed on the defensive, trying to explain that the Medicare cuts are unrelated to the tax cuts—a debate they are not winning.

The bottom line, however, is that as the President and Congress proceed to implement a six- or seven-year balanced budget plan, growth in programs such as Medicare and Medicaid inevitably will come at the expense of other priorities. This already is evident in the 1996 budget. Clinton vetoed the reconciliation bill, thus saving Medicare from reforms projected to save \$270 billion over seven years. But Republicans were successful in shrinking domestic discretionary spending by nearly \$23 billion—a one-year savings that will produce more than \$100 billion savings over a seven-year period. By protecting Medicare, Clinton has in a very real sense facilitated the reduction in funding for housing, human services, urban development and other domestic needs. To some extent, cuts in these programs will now transfer back to state and local governments the responsibility for funding assistance in these areas.

By necessity, Clinton will have to embrace reform in the health entitlement arena. Cost trends in these programs are unsustainable. In fact, the Medicare trustees reported in June that the Medicare trust fund will be insolvent by the year 2001. Medicaid’s financial problems will similarly need serious attention in the coming years. As the federal government reduces funding for these two health programs, it is reasonable to anticipate increased demand on state and local governments to help preserve a safety net for low-income and senior citizen populations.

A shift toward state control also is occurring in the arena of welfare. After vetoing two earlier proposals, Clinton has signed into law a major welfare reform plan that is designed to end welfare as we know it; however, Clinton did not sit idly by, waiting for welfare legislation. The welfare reform bill follows three and one-half years

in which the Clinton administration has been quite generous in offering waivers to state governments, to experiment with welfare reform. In all, 43 waivers for welfare and a dozen for Medicaid have been granted. (Parenthetically, during the Bush and Reagan years, far fewer waivers were approved, despite heavy Republican rhetoric about the welfare waste and abuse.)

Another key area in which the Clinton administration has taken the lead in devolving power to the states is job training assistance. President Clinton, together with Republican Sen. Nancy Kassebaum of Kansas, has proposed an ambitious overhaul of the nation's job training programs. Their plan would consolidate more than 100 job training programs into one block grant, offering states enormous flexibility in fashioning job-assistance programs for unemployed workers. As Congress rushes toward adjournment this month [October 1996], this initiative may fall short. Nonetheless, the groundwork has been laid, and passage of this far-reaching revamp of jobless programs will certainly be a high priority in a second Clinton term.

Worth mentioning at this point is the political balance of power in Congress. Republicans currently hold a narrow majority in both houses of Congress. The odds favor the Republicans to retain control of Congress after the November elections, albeit by smaller margins. If Democrats regain the majority, it will be a razor-thin victory.

Here is why: Twenty-eight Democrats are leaving the House of Representatives by retiring or seeking higher office. Twenty-one Republicans are in the same category. With few exceptions, the Republican vacancies will be filled by another Republican. More than half of the Democratic vacancies are vulnerable, however, to loss to the Republican party. That means Democrats will have to defeat roughly 30 Republican incumbents in order to return to the majority—an unlikely scenario.

In the Senate, open seats offer few opportunities for Democratic gains. It also appears more Democratic incumbents are in competitive reelection races than are Republicans.

Quite simply, Democrats who are favoring increased federal involvement in domestic affairs will not constitute a working majority in the coming Congress. Even if Clinton were inclined toward a more activist federal government. . . while faced with a Congress almost evenly divided between the parties, he will have little choice but to continue down a path of fiscal austerity and devolution.

Given these developments at the federal level, there should be no doubt that “the era of big government is over!”

The surprising news is, state and local governments appear ready for devolution. In many ways, they are ahead of the federal government in this regard. Voters increasingly have turned to a new generation of leaders or another political party to

bring about the change that is required by current circumstances. For example, it is the state governors who have requested the Medicaid and welfare waivers. Local experimentation in other areas of public policy also is quite noteworthy.

Let's take a closer look at some of the mayors and governors who are at the forefront of this movement toward state and local control:

Mayor John Norquist of Milwaukee is an exciting example of a New Democrat who is challenging the status quo. He writes, "Too often, our party has been unwilling to cut spending and support real experimentation. Democrats have to be willing to experiment. . . both to encourage people to break free from welfare dependency and to relieve taxpayers of the burden of paying for programs that don't work."

Norquist initiated a successful welfare plan called New Hope, which coordinates the efforts of government, business and charities in order to move welfare recipients into real jobs in the inner city, while preserving the health and other important benefits that make working pay. His cost-conscious approach to welfare and other government service is driven by his belief that taxpayers—especially low-income working families—should not be forced to pay for costly and inefficient government.

Democratic Mayor Richard Daley of Chicago has brought local control and accountability back to education in his city. According to Daley, "From the U.S. Education Department on down to local school boards, education has suffered from a lack of leadership and accountability. . . . By 1995, it was apparent that the Chicago public schools were in crisis. For years, our system had been plagued by failing schools and strikes. . . . Authority was divided between local school councils, the school board and the central bureaucracy. . . . In short, no one was directly responsible for the state of our schools. Despite extensive media coverage of crumbling buildings, overcrowding and poor academic performance, the system remained unresponsive."

Granted authority by the Illinois state legislature, Daley is bringing results. The school budget is in balance. A labor agreement will keep employees from striking for at least four years. A capital improvement program is underway. A summer school "safe haven" program has been instituted. Breaking with old orthodoxies and entrenched interests, Mayor Daley is breathing new life into Chicago's schools and bringing new hope to Chicago's parents and children.

And do not forget:

- Republican Mayor Guliani of New York has been credited with restoring basic city services.
- Los Angeles has turned to a Republican mayor, to bring fundamental change.
- In Michigan, Republican Gov. John Engler led the fight for property tax reform.

- Tommy Thompson (R-Wisc.) is in the lead on welfare reform.
- The State of Oregon is defining eligibility for Medicaid services in a controversial, but rational way.

There are countless other examples of state and local leaders who have not waited for federal assistance. . . or who, in fact, have asked the federal government to get out of the way.

Yes, there will be potholes in the road toward devolution. There are legitimate concerns that welfare reform may leave more children in poverty and that devolution of human service programs may lead to regional inequities. Concerns also have been raised about the ability of the state and local tax base to absorb greater responsibility for public assistance programs. Thus, the Michigan property tax reform effort may be the forerunner of other states' tax system overhaul, as pressure mounts to find fairer, more broad-based means of financing human service needs.

As the debate over devolution moves forward, the emphasis will not be on whether it should happen, but rather on how much and how far. Which programs can we shift to the local level? What kind of safety net must be maintained through federal intervention? Where will we find the money?

Fortunately, a new generation of leaders at the state and local levels is beginning to provide answers to these questions.

American voters took a chance on Clinton and the Democrats in 1992. Then they appeared to reverse themselves by embracing Gingrich and the Republicans in 1994.

These election returns were not at all inconsistent, however, when viewed from a broader perspective. During the last several election cycles, voters have been consistently voting against the status quo. They have (1) replaced a Republican president with a Democrat; (2) replaced a Democratic Congress with Republicans (not incidentally, for the first time in 40 years); (3) elected Republican mayors to lead cities thought to be solidly Democratic; (4) chosen Republican governors in such Democratic-leaning states as Minnesota, Wisconsin, Michigan, Massachusetts and New York; and (5) selected Democratic governors in such Republican-leaning states as Colorado, Nebraska, Florida, Vermont and Georgia.

Voters may not understand the nuance of every public policy. But, like a board of trustees, they do reserve the right to determine the general direction of public policy. And, by their votes in recent years, Americans have been clearly expressing their desire for change and their support for leaders who will challenge us to do things differently.