1077

BLOCK GRANTS AND THE INTERGOVERNMENTAL SYSTEM

HEARINGS

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OF THE

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WEDNESDAY, JULY 15, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS AND
INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1:30 p.m., in room 2247, Rayburn House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Present: Representatives Hamilton, Richmond, and Rousselot.

Also present: William Keyes, Deborah Matz, Michael Nardone, Mark R. Policinski, and Robert Premus, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, CHAIRMAN

Representative HAMILTON. May I ask the witnesses to take their seats, please?

I am pleased to welcome this distinguished panel of witnesses to discuss this timely and important topic. When we started planning this hearing it seemed that block grants would be playing a prominent role in future years and that if the President's proposals did, in fact, become a reality, it would not occur in deliberations this year.

As you know, this situation has changed dramatically. By the end of the reconciliation process, the House had passed six new block grants and the Senate seven. These would consolidate existing categorical programs in the areas of health, social services, education, and energy. These are in addition to the community development block grant which was significantly expanded by both Houses.

I am aware of the feelings about block grants, that they run high on both sides. Advocates believe that Federal programs and redtape have gotten out of hand and that the programs are often cumbersome, inefficient, and wasteful. Opponents fear that people and places in need will not universally be served by block grants.

I am hoping that today we can discuss the potential effect block grants will have on the intergovernmental system. Are States, in your opinion, prepared to assume the responsibility of administering block grants? How are the programs and recipients likely to be affected? What effect will consolidation have on State and local government staffing and budgets? In addition, I am interested in knowing how large a cut you feel can readily be absorbed through consolidation and how long a transition you feel is necessary.

I am also hopeful that the information we obtain here today will be useful in helping Federal, State, and local government officials to adjust to changes in our intergovernmental system.

And so we welcome today, before a subcommittee of the Joint Economic Committee, Claude Barfield from the American Enterprise Institute; Paul Dommel from the Brookings Institution; Lester Salamon from the Urban Institute; and David Walker from the Advisory Commission on Intergovernmental Relations.

Now, gentlemen, what I'd like to do is have each of you summarize your prepared statements, if you would, in about 5 minutes. We'll just go down the panel from left to right, my left to my right. Then when you have completed your summaries, we'll open it up for questions. Your entire prepared statements will, of course, be entered into the record.

We are pleased to have with us, of course, Congressman Richmond from New York. Congressman, do you have an opening statement you want to make?

Representative RICHMOND. No, Mr. Chairman.

Representative HAMILTON. Congressman Rousselot will be joining us later and has requested that his opening statement be inserted in the record.

[The opening statement of Hon. John H. Rousselot follows:]

OPENING STATEMENT OF REPRESENTATIVE ROUSSELOT

Mr. Chairman, it is a pleasure to assemble today to discuss Federal assistance to States and localities, and, specifically, block grant proposals.

The enactment of block grant programs will provide State and local governments with greater flexibility in making programing decisions. Currently, bodies of categorical grant programs mandate from Washington how much money is available for certain projects to whom. Freeing State legislatures, county supervisors, and city council members from the costs of researching, applying, and waiting for Federal grant moneys will lead to more responsive, responsible, and cost-effective local government.

Matching block grant programs encourage State and local governments to provide further responsibility. In addition to programing decisions, funding becomes a responsibility for local government. Different matching levels can be established in accordance with the State's or SMSA's average per capita income or other measure of ability to pay. The Interstate Highway System, now nearing completion with an exception of a strip near my district, is an example of States contributing to a Federal project. States contribute 10 percent of expenses. The results are increased interest by State legislatures, budget watchers, and highway departments in the roads and the maintenance.

It is with great importance that this era of "New Beginnings" lowers the rate of growth of public expenditures. A greater reliance on user costs—paid for by the local jurisdiction of benefit—will further strengthen the Republic.

Representative HAMILTON. Mr. Barfield, we'll begin with you.

STATEMENT OF CLAUDE E. BARFIELD, VISITING FELLOW, AMERICAN ENTERPRISE INSTITUTE

Mr. BARFIELD. Thank you, Mr. Chairman.

I would just like to go over two aspects of my prepared statement in the 5 minutes that I've got. My statement relates first to some recommendations about the block grants, or special revenue-sharing proposals which I think they're better defined as, and second to a set of larger issues which I think the administration has precipitated by its publicly and opening acknowledged long-range plans in relation to re-sorting Federal, local, and State responsibilities.

Let me call your attention to the part where I suggest five additions to the legislation. I have a moving target here, and I was not sure what the Congress would or would not do, so in some cases these suggestions may already be included.

Let me back up for a minute here to the definitions. The administration calls its proposals block grants, but they are, I think, much more akin to the special revenue-sharing proposals of the Nixon administration than they are to traditional block grants, that is, there are many fewer restrictions on them.

It seems to me that in order to protect both the Congress on the one hand, which is responsible for the money, and the State and local governments that are responsible, on the other hand, that will be dispensing the services, there are certain additions that the Congress should consider that I think circumvent tension and disagreements later.

Let me just go over them briefly. First, it seems to me that the statements of purpose should be sharpened to some degree. In the original block grant proposals, these were quite general. It seems to me that the State and local governments should be given particular goals to achieve. I mention—talking about infant mortality—a reduction in infant mortality, a reduction in diseases from lack of immunization, that sort of thing.

Second, in relation to reports and public participation, there is a great deal of uneasiness by public interest groups and by participants in the existing categorical programs that their particular interests will be overridden.

It seems to me that there are two things that the Congress could do. It could either direct that there be public hearings at the State level or—and since I wrote this, my opinion has changed to some degree here—or the State could be required to make the block grant appropriation part of its own legislative or budgetary process. It seems to me today that the latter is a better solution, from the point of view of the State, if this is going to be money that has not only to do with Federal priorities but with perceived State priorities. But you could either mandate a separate public hearing or assume that the public hearing or public participation could come as a result of the budgetary hearings that the State legislature was having.

Third, it seems to me that some uniform audit should be provided. The obvious one would be a GAO document or an OMB circular. It seems to be that the Congress at a minimum should, again for its own protection, get some kind of uniform nationwide standard of auditing.

Fourth—and this is more difficult—by and large in the six major block grants, the aim was to target to poor people. The Federal Government, and as far as I know, the Congress, has never made an attempt to define what the income limits are for poor people. It seem to me that the State and local governments, if they are thrown into the block grant situation, will give many varying definitions which later will come back to haunt them and the Congress. So some attempt should be made to give a uniform definition of a low-income person or poor person for the block grants.

Fifth—and again, this is a difficult area—there have been worries, particularly by the local governments, that the moneys that will come in the block grants will be eaten up with administrative expenses at the State level.

My colleagues are probably better equipped to deal with this or to discuss this than I am, but certainly the literature that I have read convinces me that it is almost impossible to define precisely anyway what is an administrative cost, and even with the best of wills, it would be very difficult to set any kind of absolute number. I does seem to me, however, that symbolically the Congress might consider setting a limit that would be loose enough so that you would not have any particular limit across the block grants, say 15 percent, which would be a symbolic gesture to the States that they are not to eat up an amount more than a certain amount of money for administrative cost.

I do not think you can get it in any detail, given the fact that administrative costs vary from less than 1 percent in some programs to 20 or 25 percent in others, some kind of average which would be really no more than a symbolic gesture could be undertaken, which would not restrict the States on the one hand, but would give some sense that Congress has responded to the local concern.

And then finally the original block grant bills, I think, set October 1 as the beginning of the system—that date should be extended for 18 months to 2 years, depending on the particular program.

Some areas obviously, I think, the States could walk into tomorrow. Others where the States themselves have not had responsibility, where it's always been a local responsibility, local public health areas, I understand they certainly would need some time and should be given it.

The second point of my prepared statement basically says that to get involved this year in an intricate analysis of the details of particular block grants is to miss the point. The administration has set in motion a basic redivision of Federal, State, and local responsibilities, and it is very, very open and candid about this. It has asked for a 25-percent cut this year and intends to hold constant the block grants' appropriation, which will mean by 1984 and 1985, we've got about a 60-percent cut. The administration is reordering priorities, it seems to me, that the Congress at the same time should also begin to look at a re-sorting out of responsibilities.

I'll make a suggestion, which is one that others have made about how that sorting out should go—but the point is I think to just focus on the block grants and what is happening in Congress today is a much larger issue.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Barfield follows:]

Prepared Statement of Claude E. Barfield

Mr. Chairman, I am Claude Barfield, currently a Visiting Fellow at the American Enterprise Institute, and from November 1979 to February 1981, Co-Staff Director of the President's Commission for a National Agenda for the Eighties.

The testimony I am presenting today is taken largely from a book I have just completed for AEI on the Reagan block grant proposals and the future of American federalism, but the views I shall express do not necessarily represent those of AEI.

Mr. Chairman, my testimony essentially breaks down into two parts; first, an analysis of history of existing block grants in relation to their efficiency, effectiveness and degree of actual decentralized decision-making by state and local elected officials and then some suggestions in light of that history for amendments to the legislation now before Congress; second, an argument that the issues that have been raised by the current legislation and future plans of the Reagan Administration transcend mere questions of good or bad public administration and go to the heart of the nature and functioning of the American federal system in the 1980s. Specifically, I argue that the time is ripe for a sorting out of responsibilities among the national, state and local governments, a sorting out that could produce both a more equitable and a more efficient federal system.

THE BLOCK GRANT EXPERIENCE

In evaluating the Administration's claims for its block grant proposals in regards to efficiency and effectiveness, one can turn to the experience of the five block grant programs created since 1966 and to the research of organizations and individuals who have analyzed them separately and collectively.

There exist today five block grant programs which fulfill the design characteristics described by ACIR. They are: the Partnership in Health Act of 1966 (health); the Omnibus Crime Control and Safe Streets Act of 1968 (law enforcement); the Comprehensive Employment and Training Act of 1974 (community development); and the Title XX Amendments of 1975 to the Social Security Act (social services).

Before reviewing these findings, however, two caveats should be entered. In the first place, none of the five existing block grant programs is a "pure" block grant; that is, either the origin of history of each has caused some deviation from the design characteristics of block grants, making cross-cutting evaluation difficult. For instance, the 1966 Partnership in Health program was systematically ignored by Congress in the years after its passage and was surrounded by an increasing number (twenty to date) of categorical programs that logically should have been folded into it.

In the second place, much of the data needed to construct cost estimates for the administration of federal grant programs either doesn't exist or hasn't been collected. In addition, there are major difficulties in interpreting the data where it does exist. The existing state of the art is best summed up by the title of a recent GAO study: "The Federal Government Should But Doesn't Know the Costs of Administering Its Assistance Programs."

There are three specific questions that are relevant to the questions posed by the subcommittee regarding block grants: (1) have the block grants produced a more efficient delivery of services that will result in reduced costs; (2) has decentralization and local control resulted in more effective planning and coordination; and (3) have generalists (local and state elected officials and administrative generalists), who are more accountable to the electorate, assumed more control and direction of the programs?

Efficiency.—In 1977, the GAO completed the most extensive study to date on the costs of administering federal assistance programs (the study noted above). The effort examined 72 grant programs, two of which were block grant programs and the rest categorical programs.

Regarding its own conclusions as well as the conclusions of other studies, GAO cautioned at the outset that "attempts to analyze and compare the efficiency of the various administrative methods used have had limited success." "This is attributable," stated the GAO report, "in large part to the lack of systems that report information on financial and staff resources used in administering individual Federal assistance programs."

Within the confines of these data limitations, GAO estimated that administrative costs among the 72 programs varied widely—from 0.3 percent to 28.5 percent. Regarding the comparative efficiency of the two block grants versus the 7 categorical grants, GAO found:

"On the average, the two block grant programs we studied, CETA and LEAA, had a higher administrative cost percentage and used more staff per $1 million of program funds than did categorical grant programs. Of the 70 categorical grant programs in our sample, 55 cost proportionately less to administer than did either of the block grant programs."

However, GAO also noted that a methodological omission or flaw in its study probably caused an understatement of the administrative savings in block grants. Because it had been unable to define what constituted administrative costs at the project site level, these costs were excluded from the calculations. GAO cited the experience of community development block grants to illustrate the fact that many administrative form block grants might accure at the last level of delivery. A 1976 HUD report, according to GAO, had shown that under community development block grants, grant regulations had been reduced from 2600 pages to 120 pages, the number of annual applications from five to one, and the average application size from 1,400 pages to forty or fifty pages. As GAO stated finally: "This indicates that the higher administrative costs above the project operator level may be offset by lower administrative costs at the project operation level."

The complexities of interpreting the impact of block grants on red tape, administration detail and paperwork are further illustrated by the findings reported by the Brookings Institution evaluation of the workings of community development block grants. The Brookings team reported that only twenty-one of forty-three mayors reported a decrease in red tape, with the remaining twenty-four reporting either no change or an increase. When one looks beneath those figures, however, one finds much of that discontent stemmed from two sources: the imposition of a wholly new federal requirement internal to the program; Housing Assistance Plans; and cross-cutting national requirements—such as environmental impact statements and equal opportunity issues—which during the 1970s began to have a major impact on all federal grants. Thus, the real complaints stemmed in large measure not from the consolidation of the eight categoricals into one program but from the additional requirements that the Congress freighted with that change.

In a study of 11 elementary and secondary education categorical programs administered by the Office of Education, completed in April 1980, GAO concluded that the amount of duplication of service among them was minimal and that consolidation would probably not produce significant administrative cost savings.

In the same report, however, GAO reverted to a theme and point made in its earlier large-scale study of 72 federal aid programs—that essential data for detailed conclusions was not available:

"The fact that (federal, state and local) agencies have to deal with separate programs having different regulations and requirements as well as separate applications, separate evaluations and separate parent advisory councils, has undoubtedly created more administrative work and increased costs. But, because of differences in programs and variations in how State Education Agencies and Local Education Agencies are organized to administer them, determining how much additional burden is added by the numerous programs or the potential savings in administrative costs that would result from consolidation is difficult, if not impossible * * *

"Office of Education officials could neither tell us how much their administrative costs were increased by the many Federal programs nor could they determine how much these costs could be reduced through consolidation. Without this information, the possible benefits of consolidation cannot be weighed against possible risks."

Though often there are complicating external factors behind administrative deficiencies in the existing block grants, there are also instances simply of poor internal management. For example, GAO recently has found great laxness in state contracting practices in the existing social services block grant (Title XX) and recommended that the Department of Health and Human Services strengthen its regulations regarding these procedures. And, in a report issued in April 1981, GAO took a number of cities to task for inadequate administrative practices in dispensing community development funds, particularly with regard to money going into housing rehabilitation.

Decentralization, planning and coordination.—As noted above, ACIR in its analysis of the experience of four existing block grants, found that in general significant policy and administrative decentralization had taken place, and intergovernmental and interfunctional coordination had been facilitated, but that recategorization and low funding levels had limited the impact of these and other program improvements.

Probably the most successful example of decentralization of decision-making has occurred in the community development block grant. As the Brookings Institution evaluation noted: ". . . the CDBG program has resulted in the decentralization of decisionmaking authority from the federal to the local level, compared with the older-style HUD categorical aid program." Thirty-eight of the forty-four cities in the Brookings survey reported a reduced HUD role. During the Carter Administration, HUD officials moved by means of additional regulations to reestablish some control over funding activities and priorities, but even with those changes, local officials retained and exercised a great degree of discretion. In addition, about 53 percent of the block grant money went for new spending programs, as opposed to maintaining programs that had been funded under the categorical programs—a strong indication that local officials were exercising independent judgment on priorities.

The Safe Streets block grant was also effective as a decentralizing device. The program covered a broad range of law enforcement activities, and states were given adequate authority to identify their own problems and create programs to deal with them. ACIR's analysis finds that a coordinated process for efforts to reduce crime was established and funds were targeted generally to jurisdictions having the most serious needs. Negatively, however, the State Planning Agencies which run the programs have never become a part of most of the state and local criminal justice systems. And Congress almost annually added new earmarked categories to the grant, thus continually constricting discretion.

The social services (Title XX) block grant is the newest of the block grants, going back only to late 1975. Separate studies completed in 1978 by the National Governors Association and the Urban Institute, concluded that the goal of comprehensive planning and coordination in the social service area had not materialized by that time. The Governors Association study also suggested that part of the problem was a lack of internal program evaluation and an assessment of the needs of the service populations. On the other hand, the Urban Institute study found that, despite severe funding restrictions, there was already evidence that the states were exercising independent judgment and changing the allocation of resources. While the data were "fragmentary," stated the Urban Institute report, they did suggest "major shifts which may have stemmed from the Title XX experience."

Generalist control.—Closely related to decentralization is the issue of whether or not generalists (local elected officials such as the mayor and city council and top administrators such as city managers) have assumed control or whether the specialists (appointees to special districts, functional specialists and others) associated with categorical programs still pull the levers.

Here again, as in the area of decentralization, the community development block grant achieved the greatest success, both in statutory underpinning and in subsequent actual practice. The eligibility provisions of the authorizing act clearly favor local elected officials in general units of government—cities over 50,000 population in standard metropolitan statistical areas and urban counties over 200,000. And the Brookings evaluation found that local government officials, particularly chief executives, did play a more influential role than they had under the prior categorical progress. The study noted:

"Local chief executives and other generalist officials of the executive have been the principal actors. This applies both to the procedural and substantive aspects of the CDBG programs. There was significant involvement by local legislatures in nearly half of the sample units in the first year of the CDBG program."

Both the Safe Streets and Partnership for Health block grants achieved a fair degree of generalists participation and control, but both also illustrated the difficulties achieving a true integration in the state and local political systems. In the case of the Partnership for Health grant, a low level of funding and the continual addition of categorical grants in the same functional area undercut any possibility that it would play a significant role in state health planning and operations. It became in time a "gap filler," a fund that state officials could utilize to make up deficiencies in the health area.

A low funding level also limited the involvement of generalists in the Safe Streets grant. The program usually became identified with an controlled by, the governor's office (the governor usually established and named the members of the State Planning Agency mandated under the grant). Further, in some states governors actively resisted efforts by the state legislatures to utilize the program. Thus, it has been difficult in many states to tie these federal anti-crime funds to state outlays or to integrate this program with broader state legislative efforts in the criminal justice area.

Carl W. Stenberg of the ACIR staff has posited general conditions for generalists participation and non-participation in block grants, under the title, "the myth of the generalist";

"According to this 'myth,' the generalist has the interest, commitment, and capacity to make all decisions relating to the block grant. Yet realistically, where the generalist is a part-time official, the aided function is not a traditional activity or one that is heavily supported by direct revenue, the program area is technical or complex or the amount of federal funding is small, these officials have not become the key actors in the decisionmaking process. In these cases, specialists may continue to be highly influential, as generalists will be unwilling or unable to keep on top of developments.

On the other hand, where a federally aided area is visible, controversial, and politically sensitive, generalists will probably attempt to play a major role even when some of the foregoing conditions are present. This has been evident in the crime control, manpower and community development programs. The basic point here is that unlike many categoricals, block grants give generalists the *opportunity* (italics added) to become involved in decisionmaking."

THE REAGAN PROPOSALS AND LESSONS FROM THE BLOCK GRANT EXPERIENCE

While there are important differences in the individual histories of the existing block grants, there are also certain lessons that can be drawn. One fact particularly stands out: that in mosts cases external conditions and factors were more important in determining how a block grant worked than the particular administrative capabilities of local and state governments. Thus, the level of funding that a block grant achieved, the amount of recategorization Congress imposed over the years and the attitude and performance of the executive agency in charge of the grant, all exercised often predominant conditioning influence. It is probably no great exaggeration to state, then, that if the Reagan block grants pass, the most important keys to their success will be the existence through the rest of the decade of benign, supportive presidential administrations, combined with Congresses that exercise restraint in relation to changing the ground rules and recategorizing the programs.

A second less from the history of the block grants relevant to the current proposals is the danger of over expectation. For instance, the LEAA grants never amounted to more than five percent of a state's criminal justice budget, and the Partnership in Health grants did not account for more than three percent of reported state health department expenditures in the same areas. Thus, it was just not possible for them to attain the leverage to produce major changes in the way states and localities planned or administered their programs in these areas.

The Reagan Block grants are coupled with an initial 25 percent reduction in existing programs and with further cuts that may result in to 60 percent reductions by 1985. In this situation, as with the LEAA and Partnership in Health experiences, while there probably will be reductions in red tape and in administrative costs, it should not be expected that—as was hoped with earlier block grants—these new consolidated grants will lead to major shifts in a state's total social or health program priorities or to great innovations in service delivery. They are not likely, in and of themselves, to have that much leverage and influence.

Finally, will they lead to greater control by elected officials and top bureaucratic generalists? Stenberg's conclusions about regarding existing block grants remain relevant for the future. As in the past, there will be conditions and circumstances that will work for and against genuine generalist control, but the result of the movement from categorical grants to block grants is that unlike categorical grants, block grants to give generalists the opportunity to exercise control if they so choose.

Given what is known regarding the history of existing block grants, the very looseness of the administrative requirements and the vagueness of congressional instructions and mandates, in the six Reagan administration block grant proposals, are likely to cause problems and tension in the future. To circumvent this result, there are a number of changes which might be made in the current legislation that would clarify the purposes of the acts and tighten administrative procedures, without greatly reducing flexibility for the state and local governments. Some of these suggestions have already been made by representatives of state and local officials themselves.

Specifically, Congress and the Administration should consider the following revisions:

1. Purposes.—The statements of purpose in the six block grant proposals are couched in quite broad, general language. The activities included are listed, but the intended goals are not. To the extent possible the statement of purpose should lay out the intended goals for each of the general activities; for instance, reduction of infant mortality, reduction of the incident of disease among migrants or reduction of sudden infant death syndrome. Posting a goal will give the states clearer direction and allow more accurate evaluation later.

2. Reports and Public Participation..—The legislation requires states to prepare and make available for public comment intended use reports prior to the expenditure of block grant funds; but there is no requirement for public hearings. Particularly because of the fears of many public and special interest groups that the states will ignore their interests, the public participation provisions should be tightened. One possible approach would be to allow the states either to hold a separate public hearing *or* to integrate the block grant into their normal budgetary and legislative process. If, for instance, the state legislatures reappropriated the funds, then the appropriations hearings could be used as a forum for debate on their allocation.

3. Audits.—The legislation provides for an independent audit every two years, but does not lay down guidelines for the nature or contents of the audit. In order to ensure uniform data and evaluation, Congress should make the audits conform to some existing standards—such as the OMB circulars or the GAO's Standards for Audit or Governmental Organizations, Program, Activities and Functions.

4. Eligibility.—The categorical grants that are being repealed contain a bewildering array of eligibility requirements. The proposed block grant legislation, with the exception of the local education grant, which is limited to handicapped and educationally disadvantaged students and students in schools undergoing desegregation, allows the states to establish their own eligibility requirements. There is the need to preserve state flexibility on this issue, but at the same time, clearly the programs being folded into the block grants are aimed particularly at poor people. Therefore, it would make sense—and clarify a great deal of confusion that exists in the present system—for Congress at least to specify a uniform definition of low-income persons.

5. Administrative Costs Limit.—Local government representatives have expressed strong concern that state bureaucracies will eat up a disproportionate share of already limited funds in administrative costs. As noted above, there are great difficulties in defining such costs. But Congress should consider placing a limit on the total percentage for each block grant that could go for overhead. This would allow flexibility for disparate administrative costs from the individual categorical grants being folded in, but at the same time serve as a caution to the states that they would be watched for costly, inefficient administration.

6. Effective Date.—The block grant legislation has an effective date of October 1, 1981. This provision should be changed to allow for implementation for a period of up to two years. The changes contemplated in the legislation in some cases will necessitate changes in state laws, and many state legislatures have already adjourned for the year. In addition, there are a number of new responsibilities being laid upon the states, and they should be given time to plan for the transition, restructure their executive departments and otherwise integrate these new responsibilities into their own budgeting and legislative processes.

FEDERALISM IN THE EIGHTIES: SORTING OUR RESPONSIBILITIES

To remain bound in the dense thicket of the intergovernmental grant system would be to miss a much larger emerging reality: that the Reagan Administration has the opportunity to guide and shape a major reshifting and redivision of responsibilities in the American federal system. If it succeeds, this "sorting out" of responsibilities could combine political benefits for the President and his party with the achievement of a sounder, more rational federal system.

The programmatic framework for a sorting out of domestic program responsibilities proposed here would have the federal government assume the primary role in the provision of basic human needs for the general population: health care, housing, food, and income and employment security. The special needs of special populations would be handled largely by state and local governments with the provision for a federal supplement in the special situations if federal resources were available after the basic needs of the general population were met.

As officials of the Reagan Administration over the past six months have revealed their long-range plans—and the rationale behind them—for domestic policy, the profound implications of the changes being contemplated have become increasingly evident. Urban expert Richard Nathan has recently stated: "The Reagan program makes domestic and social policy changes of an historic character, although packaged . . . as economic policy. It represents the most radical shift in domestic policy since the New Deal."

As Nathan, Senator Daniel Patrick Moynihan (D.-N.Y.) and others have noted—and in Moynihan's case combatively protested—the budget process is being utilized effectively by the Reagan Administration not only to combat inflation but also to institute major redirections in federal policy. Should the President's new budget priorities prevail over the next four years, the federal government's support of social services would be drastically curtailed, while defense spending would rise substantially. It is estimated that under the Administration's projected budgets, defense spending will rise 9 percent per year (real dollars) and funding for social programs will decline about 15 percent over the next five years.

A second radical shift in domestic policy relates to federalism and intergovernmental relations. Just as the current debate over the fiscal 1982 proposed budget cuts is only the first skirmish in a larger struggle to reshape national priorities, so, too, are the President's six block grant proposals only the first step toward the larger goals of reshuffling the division of responsibilities between the federal and state governments and of simultaneously changing the political ground rules that underpin the current division of responsibilities between the two levels of government.

ANNOUNCED INTENTIONS

It could be argued that the Administration is already well advanced toward reordering federal, state and local responsibilities. Even without factoring in inflation, the 25 percent budget cuts proposed in the program areas of the six block grants will shift a substantial burden to states and localities. For the future, the Administration intends to hold each of the block grants (except the local education grant) to the level of the fiscal 1982 budget through fiscal 1985. Even using the optimistically lower inflation rates projected by the Administration, it is estimated that holding these programs constant will result in an average reduction across all the block grants of almost 60 percent.

Administration spokesmen have also been surprisingly candid about their ultimate plans for these programs areas, even though the admission has played into the hands of opponents of the current block grant legislation. For instance, While House Assistant Robert Carleson has publicly stated that the block grants are the first step toward total withdrawal of the federal government from the education, health and social services programs that are therein encompassed.

In a number of meetings with state and local governments officials, the President has referred to a "dream" that he has regarding the future of federalism:

"I have a dream of my own. I think block grants are only the intermediate step. I dream of the day when the federal government can substitute for (block grants) the turning back to local and state governments of the tax sources we ourselves have preempted at the federal level so that you would have those tax sources."

In the meantime, the Administration has announced that it will propose additional block grants in the fiscal 1983 budget.

Lack of guiding principles—What is lacking in all of this is a set of guiding principles or criteria that add up to a coherent theory of federalism. The Administration so far has proceeded in a piecemeal fashion, and has not set forth—beyond the general statements noted above—its long range goals in any detail. Specifically, which domestic program areas does the President see as basically national in scope, which as the responsibilities of state or local governments and which as candidates for shared responsibility?

Understandably, the economic situation and the difficult struggles over budget and tax cuts will almost completely monopolize the time and attention of top White House planners for much of the Administration's first year in office. But beginning with the major policy statements for fiscal 1983 that must come in the President's State of the Union and Budget Messages in January, the Administration will find further piecemeal block grant proposals difficult to defend substantively and politically vulnerable unless it is prepared to lay out a coherent, comprehensive strategy for reordering the responsibilities of the federal, state and local governments.

THE CASE FOR A BOLD MOVE

The case for the President boldly moving to assume leadership of a major restructing of federal priorities and resonsibilities can be made on both grounds of general public interest and on grounds of the Administration's own political interests.

If, as many believe, the Reagan presidency will result in the "most radical shift in domestic policy since the New Deal," then it is in the public interest and in the interest of an effective functioning of the democratic process to throughly air the issues in a national debate. The substantive terms of that debate can only be set by the President, dealing not with the complicated details of budget items or the arcane judgments about different federal grant forms, but with the larger issues related to the nature, form and division of responsibilities of the American federal system in the 1980s.

Politically, the time may be ripe for the first time in a decade for bold presidential initiatives. After 1972, a period of political stasis set in in national politics as relatively weak presidents struggled in vain against the fragmentation in Congress and the power of narrowly focused special interest groups. Though it created more than 100 narrow categorical programs during the 1970s, Congress persistently showed itself incapable of reaching decisions on large issues such as welfare, health financing, energy and economic policy.

Unlike his immediate predecessors, however, President Reagan has shown himself to be an extraordinarily able communicator with the public and—thus far—an adroit political operator. The outcome remains uncertain, but the President's successful seizure of the initiative in the budget and tax areas may signal the beginnings of the restoration of White House power and authority. After the fiscal and economic questions are settled this year, an obvious next step would be to move swiftly to launch and control a debate on the federal role in the American political system.

TOWARD A HIERARCHY OF FEDERAL RESPONSIBILITIES

Previous periods of reform have already placed the federal government in a commanding role in key areas of human need. The Social Security and Medicare programs provide income security and health care for the elderly; unemployment insurance guarantees a floor under the unemployed; food stamps and other nutrition programs have done much to stem hunger and malnutrition; and low-income housing programs, for all the difficulties that attend them, do represent a major federal commitment to provide decent housing for all citizens.

The Administration has acknowledged and accepted this social program inheritance and has committed itself to sustaining that inheritance. Thus, the first criterion applied to the establishment of fiscal 1982 budget priorities related to social safety nets. The budget stated:

"The first criterion is the preservation of the social safety net. The social safety net consists of those programs, mostly begun in the 1930s, that now constitute an agreed-upon core of protections for the elderly, the unemployed, the poor, and those programs that fulfill our basic commitment to the people who serve the country in times of war."

There are two major national social problems however, that remain unsolved: welfare and an adequate health care (financing) system for all citizens. The case for a large—though not monopolistic—federal role in these two areas is quite strong; and any reshuffling of authority among the three levels of government should provide for a substantial national policy and financing responsibility in those areas.

The assumption by the federal government of a major role in the welfare and health care areas would mean that national responsibility would have been asserted for the most basic human needs of the general population: food, shelter, health care, income security and housing. These would then constitute the "agreed-upon core of protections" and have first call on federal resources.

With these floors established for the support of basic human needs for the general population, the special needs of special populations occupy a second level of priority and should be dealt with by the state and local governments, by some sharing of burdens among the three levels of government, but only in very special circumstances by the federal government alone.

The establishment of a hierarchical set of federal priorities has direct implications for the issues raised by both the proponents and the opponents of the Reagan Administration's move toward block grants and a phaseout of a number of existing categorical aid program areas. The assertion of ever expanding new "rights," or "entitlement" over the past decade and half is rooted in the authorizing legislation for the hundreds of categorical programs that were created during that time.

Opponents of the Reagan Administration block grants and budget cuts have come close to asserting that most if not all of these individual grants have conferred immutable rights on their beneficiaries and that somehow a moral compact between the government and these eligible populations is being violated. OMB Director Stockman, on the other hand, has faced entirely in the opposite direction, asserting that he doesn't "believe that there is any basic right to legal services or any other kinds of service, and the idea that's been established over the last ten years that almost every service that someone might need in life ought to be provided, financed by the Government as a matter of basic right, is wrong."

What is being proposed here is a middle way, a framework for establishing a clearer division of authority among all levels of government at a time of quite limited public resources. The federal government should expand the "agreed-upon core of protections"—federal entitlements—to encompass the basic life support needs of the general population. Specifically, as a part of any tradeoffs between the federal government and the states and localities, the Reagan Administration should take the lead in shaping welfare reform and health care financing proposals in ways that provide for federal policy leadership and financing, though not necessarily for federal administrative control.

At that point, it could plausibly and credibly argue that most of the existing individual categorical programs—community health centers, foster care and adoption assistance, special education programs for handicapped children, family planning, emergency medical services, black lung clinics, fluoridation, or any of dozens of worthy programs—must perforce form a second order of priority for the federal government. This would not mean that all of them would die—there might very well be strong historical, programmatic or political arguments for the retention of a Head Start program or a migrant health center—but it would mean that funding and support for them would depend on the resources available after the needs of the "agreed-upon core of protections" had been met by the federal government.

The proposal to establish a rational order of national priorities will not entirely please either the Reagan Administration or its opponents. While it may be moving toward a proposal regarding national health insurance, the Reagan White House seems to have a visceral, ideologically negative reaction to the federalization of welfare, favoring instead a cumbersome and inequitable system of block grants to states. But the case for a strong Federal role in this area . . . and in health care financing—is quite strong. In a highly mobile society such as ours, the spillover effects of poverty cross state and regional lines and argue for a uniform minimum level of transfer payments to individuals (adjusted for cost-of-living variations), not only to assure that all citizens will be treated equally regardless of happenstance of residence but also to avoid a needless competition among states that would distort growth and job patterns.

Opponents of the Reagan Administration who defend many of the 500-odd categorical grants as establishing a new group of "rights" or "entitlements" for the special populations served by these grants, ignore the fiscal and economic realities that bind the nation. It is likely that again and again during the 1980s, the federal government will have to make a distinction between programs which are fundamentally necessary to sustain the social and economic fabric of the country and those which are both laudable and worthwhile but not of the same order of priority. This was a theme particularly stressed by the recently published report of the President's Commission for a National Agenda for the Eighties. In the opening chapter, the report stated:

"As we enter the Eighties . . . (a) new constellation of factors—both domestic and international—has arisen . . . that requires the nation to make some fundamental choices. We no longer have the luxury of recommending more of the same in a variety of areas . . . The nation faces a decade of difficult choices and priority-setting among many important and compelling goals . . . (and it) cannot proceed on all fronts at once."

Representative HAMILTON. Thank you Mr. Barfield.

Mr. Dommel.

STATEMENT OF PAUL R. DOMMEL, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. DOMMEL. Mr. Chairman, I would like to pick up on a few points from Mr. Barfield. I think the two overriding themes of my discussion are accountability and transition.

On the accountability side, to the extent that it is in the block grant legislation being proposed, it is only symbolic. Accountability lies, in my view, at the application and I think that is distinguishably different in view from what the administration believes. They believe that if you pick up on the audit end, that is where you can obtain accountability.

My view, after looking at the community development block grant program for 6 years, is that if you do not control or oversee what goes in, then you should not be surprised what comes out. It gets awfully late in the game to pick it up in the audit.

The CDBG program, I feel, has the proper ingredients for that element of accountability, that is, that there was a review period for the application and the right of the Federal Government to say "no." That veto is limited to 75 days, so that you don't have the interminable delays of the categorical grants that preceded it. Nevertheless, there was an opportunity for Federal review of the application—the proposed spending plans—to see how it matched with national objectives.

And I certainly share the view of Mr. Barfield that to the extent that there are any statements of national purpose or national objectives in any of the block grants that I have seen, they are very thinly worded, and they will allow almost anything to happen. I think the importance of tightening those up is not only for the Federal review but also to give third parties an opportunity for recourse because of what they perceive to be a violation of the national objectives by the recipient governments.

This administration seems to prefer to look at the audit end. If what they are doing to the community development block grant is an example, I don't know how they're ever going to do it. What I have seen in the Senate bill, and I understand substantially the same language is in the reconciliation bill of the House, is that the audit disallows recovery of misused funds, and you cannot deduct those funds from the future grant.

If you do not provide for the review of the application and you do not provide for recovery of funds that are judged to be improperly spent, then where is the accountability? I don't know.

Certainly, in the CDBG program, and if those amendments are any model for the others, I see no accountability anywhere along that process.

The other point I would like to raise has to do with the transition, and it follows along the line of what Mr. Barfield said, that is, it is really too sudden. They're going into too many complex areas all at the same time.

I am skeptical about the capacity of the State legislatures, since that seems to be the institutional direction of the money, to take on so many new decisions in such a short period of time especially since there will be less money. My view is to transition into these block grants through a 2- or 3-year period, cutting the funds—since that seems to be the driving force behind all of these proposals—and allowing some discretion to move money across the categories. The shifting could be 25 to 30 percent a year across the categories, so that you can see what sorting out of priorities is going to occur—who is winning, who is losing, and what are the complaints about the allocation systems that States will adopt.

It seems to me that a transition period is not an unreasonable thing to provide. This would allow some discretion for moving back and forth across some of the categories and give everyone a fair opportunity—Congress, State legislatures, State executives, organized groups who are now beneficiaries of these programs—an opportunity to see what the politics of this situation are and to determine the appropriate national objectives. This would be better than starting out an saying, "Well, we want to protect this program within this block grant, so we earmark." Find out just what are the priorities that are going to be established with this greater discretion.

That is the thrust of my prepared statement, Mr. Chairman.

[The prepared statement of Mr. Dommel follows:]

PREPARED STATEMENT OF PAUL R. DOMMEL[1]

For the past six years I, and a network of field associates, have been studying the community development block grant (CDBG) and how it operates in 60 communities around the country. The experience has made me less skeptical about the program than I was when it began in 1975. It has also given me the opportunity to consider the ingredients which I believe are basic to creation of block grants, ingredients

[1] The views presented in this statement are the sole responsibility of the author; they do not represent the position of the officers, trustees, or other staff members of the Brookings Institution.

which appear to be either lacking or only symbolically represented in the block grants currently being considered. There are two factors I would like to set forth today for your consideration—accountability and transition.

ACCOUNTABILITY

Block grants eliminate neither state and local accountability nor federal responsibility for assuring proper use of federally collected revenues. A block grant lies between the narrowly focused, more federally controlled categorical grant and the "no strings attached" approach of general revenue sharing. But a block grant does not simply occupy the midpoint between two extremes. Rather, it occupies a policy range within which shifts may occur, reflecting a balance between national policy objectives and local preferences. This is the dilemma of block grants: How and where in this policy range do you balance national responsibility and policy objectives with the decentralization objective? The community development block grant provides a good basis for exploring this dilemma.

Some important procedural and substantive features of the CDBG legislation were intended to produce greater local discretion.

The most important procedural changes from the categorical aid programs consolidated into CDBG, the major ones being urban renewal and model cities, included: scrapping discretionary funding in favor of a formula system; limiting federal review of applications to a 75-day period and establishing a veto-only federal review procedure; eliminating virtually all federal requirements for the structure of the local decision process; and establishing a local certification process to assure local conformity with a variety of compliance requirments that cut across a wide range of federal grant programs, such as non-discrimination, Davis-Bacon wage standards, environmental review, etc.

Substantively, local discretion was given greater scope by: establishing a set of federal objectives that were sufficiently broad to permit considerable room for local as well as federal interpretation; eliminating the explicit target area approach of model cities and urban renewal, thus making the program potentially communitywide; and creating a long list of eligible activities to meet physical, economic development, and supporting service needs.

But in expanding procedural and substantive discretion for local decisionmakers, several national objectives were included explicitly to guide local decisions. The application process was to serve as a mechanism for federal review of local programs to assure local compliance with national policy. In its initial grant consolidation plan, called special revenue sharing, the Nixon Administration in 1971 included no national objectives beyond decentralization and proposed that the funds be distributed automatically by formula without any need for a local application. Major elements of accountability—national objectives and an application process which included a federal opportunity to say "no"—were put into the legislation by Congress, with the Senate taking the strongest stand on retaining some means of federal control over the block grant. The Congress also included a provision requiring each recipient jurisdiction to submit an annual performance report to the Department of Housing and Urban Development describing the relationship of the activities funded to the national objectives; HUD was charged with seeing that communities used the money the way they said they would in their applications. Thus, there were several elements of accountability and responsibility build into the legislation which provided federal administrators the opportunity to get involved in the substance of local programs, if they chose to do so.

In addition to this vertical accountability to the federal level, the CDBG program also included elements of horizontal accountability by making local elected officials rather than special purpose, and often semi-autonomous, local agencies the central actors in the decision process. Another important feature was the provision for citizen participation in decisionmaking. In keeping with the decentralizing objective of the block grant, the citizen participation requirements included in the legislation were not very rigorous. The only formal structural provision included was for public hearings, leaving such decisions as the existence or non-existence of other mechanisms (e.g., a citizen advisory council, its composition, and powers) to local determination. Amendments adopted in 1977 sought to encourage further participation but continued to leave structural arrangements to recipient governments. The general point to be noted is that decentralization presumed the desirability of immersing decisionmaking into the local process in a way that it would be most subject to local needs, demands, and political conditions.

This raises the more general question of which level of government—state or local—should be the direct recipient of the block grant funds. To restate the point just made: one of the underlying principals of the block grant approach is that by decentralizing decisionmaking, a direct linkage can be made between the interested publics (organized and unorganized), the decision process, and the establishment of spending priorities. In at least one case, the proposed educational block grant, that linkage is not made. The money would go to the state which would then transfer the largest share of the money down to local educational agencies. If a major purpose of the block grant approach is to tighten the linkage between the decisions made and those who are affected by them, then it seems to me that the largest share of the proposed education block grant should go directly to the local jurisdiction rather than be filtered through an intermediate process which is subject to a different set of actors and variables.

Returning to the CDBG program, at the outset the Ford Administration took a "hands-off" policy, choosing to emphasize the decentralizing goals of the New Federalism rather than the substantive goals of the legislation. This meant no second guessing of local applications and local discretion was maximized. As the program progressed, however, complaints began to be registered about both HUD administration of the program and the propensity of some communities to direct a large share of the benefits to upper income groups, despite language in the law which seeks to direct benefits primarily to low-and moderate-income groups. The complaints were heard in Congress and in the courts. HUD appeared to be sensitized by the criticism and as early as the second program year began to take a closer look at some applications, although local choices continued to prevail.

Soon after the Carter Administration took office in 1977, HUD Secretary Patricia R. Harris began to give increasing attention to the national objectives of the legislation, particularly those provisions of the law concerning the distribution of benefits primarily to low- and moderate-income groups. What evolved in the third year of the program was a "hands-on" policy as HUD officials in the area offices began to take a closer look at the substance of local programs and, in some cases, successfully pressed for major changes in the local development strategy. As the program matured, HUD also began to scrutinize local program progress and implementation. In the process they became involved in more and more details and small decisions. It was at this level of small decisions where the conflict between national objectives and local discretion became the most irritating—to both sides. There are two points to be noted about the evolution from a "hands-off" to a "hands-on" policy.

1. The substance of the law had not changed, but what had changed was the policy preference of those in charge. Under the special revenue sharing approach first proposed by Nixon such a shift in preference may not have been possible. What made it possible to exercise a new set of federal policy preferences was that the Nixon proposal had been changed by Congress to include important elements of accountability that enabled a new set of administrators to intervene to achieve stated national objectives. At the same time, the new federal activism did not materially alter the development choices of many communities. The primary impact was felt in some well-off communities that had chosen to use CDBG funds for general public works rather than direct them to the most needy neighborhoods and groups of the community. In my view, this was a highly desirable outcome. Although allocation systems are another side of the block grant issue, there is a significant number of well-off communities in the CDBG program that receive formula entitlements; they probably should not receive the grants because they have the fiscal capacity to fund their own development needs. But the substance of the law makes it possible for federal officials to get some of these same communities to give greater attention to the neediest areas of the community. The substantive provisions of the law also made it possible for third parties to press their grievances through both administrative and judicial channels. Without the elements of accountability built into the block grant, prospects for third party leverage would have been substantially diminished.

2. There is no clear point in the decision process where you can set the limits for the pursuit of national objectives. Our research of the fifth and sixth years of the CDBG program suggested that HUD's active pursuit of national policy goals tended to turn into a bureaucratic search for policies and administrative mechanisms to close local escape hatches. It appeared that a series of successive small steps aimed at achieving national objectives led to some unnecessary intervention into traditionally local prerogatives which often had only marginal relationships to and effects on the substance of local programs. The issue here is bureaucratic self-restraint. It would be useful to add, however, that the temptation to reimpose controls on block grants is as much a legislative as an administrative problem. Although this has not been the case with CDBG, Congress has not been bashful about increasingly earmarking block grant funds to support particular activities.

The case remains, however, that the decentralizing goal of any block grant should be flanked legislatively with meaningful elements of accountability, the most important being specification of national objectives, a formal application process with a federal opportunity to say "no", citizen participation, and a policy evaluation system.

TRANSITION

When block grants were established in the past they meant either new money for a functional area such as law enforcement or, in the case of consolidations of categorical grants such as occurred with CDBG, adding money as a political sweetner to make the merger more acceptable. In the case of the CDBG program, the first year authorization of $2.5 billion was approximately $300 million more than the total of the individual grants. This added money, plus the important hold-harmless feature of the law to protect communities against a suddent loss of funds, made it possible for recipient jurisdictions to allocate their funds in a way that initially did not overly disturb old programs and also permitted taking care of new claimants. As the program progressed, communities did reorganize their priorities in a way that presumably better matched funds with needs and remove any allocation "distortions" that may have resulted from overly rigid federal requirements. However, as noted above, it was sometimes necessary to impose the broad federal objectives on local choices to assure a better balance between local discretion and national program goals.

But the block grants being proposed now contemplate a substantial reduction of funds, the claim being that the decentralization that goes with the block grant will lower administrative costs sufficiently so that there will be no loss of program money. Whether that is so remains to be seen, but there is room for reasonable skepticism.

Allocation decisions are difficult enough when the pie is growing, they are likely to become quite contentious when the pie is shrinking as is the case in the block grants being proposed. Adding to the problem is the fact that the block grants being proposed contemplate consolidating a far greater number of individual programs than was the case with CDBG. Each of these individual programs has its own constituency. With a smaller amount of money, there are likely to be a sizeable number of "winners" and "losers." This is not in itself bad since one of the presumed advantages of greater local discretion is that it enables state and local officials to better match resources with needs and in the process reduce or cut out marginal programs. But cutting out a program does not necessarily mean it has outlived its usefulness or the need no longer exists; it may mean only that it does not have the clout where needed to maintain its funding lifeline.

In this connection, there is a question of how much of an additional load state and local decisionmaking processes can handle when the decisions involve highly contentious and politically charged issues. Central to the contentiousness of these issues is that the programs that would be consolidated and decentralized are programs that have primarily directed their benefits to lower income groups. The community development block grant gives evidence that the initial response of recipient communities was first to take care of the politics and then the substance. The result was tendency to spread the money around. It was this spreading tendency that prompted HUD to take a more active role in the decisionmaking process.

Established constituencies, bureaucratic and public, for programs to be blocked are likely to be very vigorous in pressing their demands on governors and state legislatures. There are also likely to be new demands because of the added flexibility and discretion. Thus there will be both existing and new demands for a smaller amount of money. There is the added problem of the organization of constitutent groups in state capitals. Because the major decisions have been made in the past at the federal level, interest groups have tended to federalize their organizational structure in Washington. There is likely to be a time lag before many of these groups can reorganize themselves for effective representation at the state level.

What is being asked of Congress is that it legislate the new block grants without any clear idea of the likely pattern of subsequent state and local allocation decisions. With the myriad of individual programs to be consolidated, it would be difficult to establish meaningful national objectives that underlie accountability. Further, I see nothing in the proposed grants that give federal administrators an opportunity to review state plans to assure their compliance with the limited statements of national purpose included in the proposed legislation.

What can be done,

One possibility is to legislate a transition period for the new block grants that would take into account the fiscal objective of reducing program spending and yet expand state and local discretion. This might be done by retaining all of the categorical programs for, say, a two year period, with a cut in funds for each existing program in the first year. To expand discretion, recipient governments would be permitted to shift a maximum of, for example, 25 or 30 percent of the funds it receives for each program to another category. Recipient governments would report each year how they allocated their funds among the various categories to be included in the block grant. Such reports would not be conclusive about actual allocations since general revenue sharing has taught us how fungible uncontrolled federal money can be. But such an approach would likely activate local groups with differing interests who can add to the information about the decisionmaking process and the kinds of allocation decisions being made. Following such a transition period, it would then be possible for Congress to deal more intelligently with the implications of their decisions. Presently, the block grants being proposed are too complex in scope and too significant in substance to permit the thoughtful consideration required.

Representative HAMILTON. Thank you, Mr. Dommel.
Mr. Salamon.

STATEMENT OF LESTER M. SALAMON, DIRECTOR, CENTER FOR PUBLIC MANAGEMENT AND ECONOMIC DEVELOPMENT RESEARCH, THE URBAN INSTITUTE

Mr. SALAMON. Thank you. It's a pleasure to be here. What I thought I would try to do is limit the discussion to block grants and try make four points.

The first point I want to make is that I think we need to be very careful about the terms in which the debate over block grants proceeds. In particular, I believe that the key issue surrounding the adoption of block grants is not the effect on administrative efficiency, which is the argument that is not commonly advanced, but whether there are implications for the purposes of public policy. The simple fact is that public programs inevitably leave a lot of discretion to the ultimate adminstrators at the ground level and in grant-aid programs, as we know, those administrators are State and local officials who must balance their adherence to national policies against the very different pressures that arise from their State and local systems because of the constellation of interests. What effectively comes to bear at the national level is different from what effectively comes to bear at the State and local level.

That balancing is inevitably going to involve a certain amount of tension. So it seems to me the shifting of Federal versus State and local control over these programs is really to change the purposes that the program serves, sometimes suddenly, sometimes not so suddenly, and that therefore, the real issue on which this debate hinges ought not to be which of the routes is administratively most efficient but which best preserves the purposes that the Congress wants to carry out.

This point, it seems to me, is particularly important in view of the fact that the pattern of shared governance, which is the basic characteristic of the whole grant-aid system has become far more dominant within the Federal program structure. It in a real sense dominates the Federal domestic program landscape, and this brings me to my second point.

That second point is that a major transformation, I believe, has occurred over the past generation or more in how the Federal Government carries out all of its business in the domestic sphere, a transformation in which the expansion of categorical grants and grants-in-aid has been one part, but only one part. The heart of this transformation has been a widespread shift from direct to indirect and what I have determined in some of my writings "third part government," from where the Government runs its own programs to one where it relies on others—counties, cities, banks, nonprofit institutions, universities, you name it—to carry out its purposes instead.

What is involved here is not simply the contracting out of well-defined functions and purchase of specified goods and services. Those are all traditional forms of Government action. The distinctive feature of what I call third-party government is, what is being shared is a far more basic, indeed the most basic, of all governmental functions: the exercise of discretion over the use of Federal funds and the use of public authority.

The central reality of most Federal domestic programs today is that the lion's share of discretionary authority is exercised not by Federal officials but by one of another of a wide array of local and non-Federal implementers through grants-in-aid, the classic vehicle of this third-party government. But one of the more interesting phenomena is how they have been joined in recent years by a whole host of other devices for sharing Federal authority with non-Federal implementers. These include loan guarantees, tax incentives, various kinds of credit insurance, regulatory enactments, new forms of contracting, new forms of procurement, and several others.

Since many of these newer tools don't show up in Federal budget totals, they have largely gone unnoticed, but their scope and scale is tremendous. New Federal loan guarantee commitments, for example, in 1981 are estimated to exceed $120 billion. Tax expenditures now amount to something on the order of $100 billion. Regulatory costs exacted by the Federal Government are estimated anywhere from $30 to $130 billion a year. These are massive forms of Government action, each of which involves the Federal Government in a curious shared relationship with the local and non-Federal implementor.

In many respects, this third-party government phenomena is a useful and indeed a very ingenious invention. It is a peculiarly American way to go about solving public problems. It has permitted vast expansion of Federal activity while holding the Federal workforce relatively constant. It taps the inner talents and energies and resources of a wider array of various institutions in the society, and it builds on longstanding American traditions of localism and privatism.

This invention has also caused very serious problems. It has caused serious problems of management for the Federal administrator. It has caused serious problems of coördination, not only a program segmented among different functional areas, but the tools are different, and the implementers at the local level are different. It's not simply just the States and localities; it's the States, the counties, and the localities, and the banks, and the nonprofit organizations and dozens of other types of implementers.

And finally, there are serious problems of accountability, the sort that Mr. Dommel has commented on.

Now interestingly, our political rhetoric and administrative theory doesn't equip us very well at all to handle this new world. These theories and this rhetoric express sharp divisions between the public sphere and the private sphere, between State, Federal, and local governments. They preach hierarchy patterns of authority as the way to organize public affairs. In practice, however, what has evolved is this new phenomenon, third-party government, and what I think, by the way, is unlikely to change is a substantial blurring of these divisions, the formation of a variety of very innovative partnerships and of pervasive sharing of authority, not a hierarchy pattern of authority.

This brings me now to the third point, the block grants. The block grant seems to me to exist on the outer fringe of this domain of third-party government, particularly the ones that have been proposed recently. To the extent that they involve massive decentralization of power, futher, they are in a sense complicating and intensifying the problems of management and accountability that I think have become the standard fare of Federal management. And it is therefore important that the premises underlying the block grant approach be very carefully explored to make sure they really are sound.

In the prepared statement, I identify three of those premises that I think are not wholly sound: the argument that further decentralization is needed, that the system now is overcentralized; the theory that the system is excessively cumbersome which I don't think takes sufficient account of the fact that 80 percent of all grant funds today go through 25 grant programs; and the assumption that local governments are indeed better able to serve national purposes than our local governments in partnership with the national government in serving those purposes.

Finally, my fourth point—and I realize I am a little over time—these points make me, I guess, somewhat skeptical about the block-grant approach, particularly as it has been proposed recently. This is not to say that I think the system is just fine; I think there are serious problems, but I put my emphasis, my reform efforts, in other areas, and I outline at the end of my prepared statement five key elements that I would include in a reform program.

The first such point, the first such element, is a clearer affirmation of the worth of this whole pattern of shared governance and of the legitimacy of national, as well as State and local purposes.

The second point is the stress on decategorization of grants, that is, the elimination of categorical distinctions, which is different from block grants. Block grants in a sense involve both decategorization and decentralization. I would emphasize more the decategorization, which I believe is important.

Third, I believe the real administrative problem in the grant system lies in the crosscutting policy requirements that are leveled across the board in the grant system and that aren't built into individual grants. And I would put a lot of emphasis into simplifying, coordinating the cutting away of some of that crosscutting set of requirements.

Fourth, I would put a lot of emphasis on improving the field operations of the Federal agencies and of the capabilities of the local governments to work with those Federal agencies, so that they really can become a partnership arrangement, sharing authority the way the grant-aid system is supposed to do.

Finally, I want to put a lot more emphasis on the analysis of different tools of public action. I think we need to understand a lot more than we do now what the consequences are of using a loan guarantee as opposed to a grant and a block grant as opposed to a categorical grant and a loan versus a regulatory device. These are all, in a sense, alternative means of carrying out the public purposes and many of the newer ones have expanded dramatically without a lot of analysis.

I think we need to be a lot more self-conscious and explicit about the public tools we take. Thank you.

[The prepared statement of Mr. Salamon follows:]

PREPARED STATEMENT OF LESTER M. SALAMON

Block Grants and the Rise of Third Party Government: The Challenge to Public Management

Mr. Chairman and Members of the Joint Economic Committee, my name is Lester Salamon and I am the Director of the Center for Public Management and Economic Development Research at The Urban Institute, a nonprofit research organization located here in Washington that has been engaged for more than a decade in the analysis of public policy issues and government programs.

I appreciate the opportunity to testify before you today on what is clerly the most significant public management issue that has been raised for public debate in many years. My comments draw on ten years of teaching and research dealing with federal, state, and local government operations; on extensive experience in evaluating and providing technical assistance to a number of federal government agencies and programs; and more recently, on my service between 1977 and 1980 as Deputy Associate Director of the U.S. Office of Management and Budget. Needless to say, however, the views I will express today are my own and do not necessarily reflect those of The Urban Institute or any other organization.

I have four objectives in my remarks today. First, I want to identify what I think is the central issue in the debate over block grants and grant-in-aid reform. Second, I want to put this debate in perspective by calling attention to the broader transformation of the domestic public sector that has occurred over the past several decades—a transformation that I have characterized, in some of my own writings, as "the rise of third-party government." Next, I want to examine how block grants fit into this overall transformation and what consequences flow from their use. Finally, I want to outline a program of change that I believe holds more promise for substantive improvement in the operation of the intergovernmental system than the across-the-board push for block grants or the sharp demarcation of federal vs. state and local roles now being energetically explored.

I. BLOCK GRANTS: THE CENTRAL ISSUE

The first, and most important, point I want to make today concerns the central issue that underlies the whole block grant debate.

In much of the political rhetoric, and a considerable portion of the available reserch, the basic question that appears to be at stake in the debate over block grants seems to involve merely a matter of administrative convenience and government efficiency. The block grant debate hinges, in this view, on whether state and local officials have the experience and expertise, the staff resources and institutional structures, to handle the functions the federal government has been performing. If they do, the assumption is that turning the functions over to them is a far more efficient way to proceed. By contrast, channelling funds to Washington for ultimate distribution through the grant-in-aid system to state and local governments is viewed, from this perspective, as the ultimate in bureaucratic folly, usurping legitimate local functions, imposing inappropriate solutions, impeding coordinated approaches by confining aid within narrow categorical structures, and erecting an extraneous layer of review and delay.

Compelling though this line of argument is, however, it overlooks a more fundamental and basic point: that the choice of tool of public action, by altering the roles of various key actors, affects not just the efficiency with which given purposes are met, but also what these purposes are and how tradeoffs among them are made.

This is so not because of malfeasance or incompetence, but because public programs inevitably leave considerable discretion in the hands of program administrators. When these administrators are state and local officials, as they are in grant-in-aid programs, the prospects for goal displacement are considerable since states and localities are separate political systems, with their own peculiar constellations of political forces and institutional pressures. The simple fact is that some interests and perspectives are more effectively represented at the national level than in many particular locales, while other interests that dominate the local scene have only limited influence nationally. What this means in practice is that public purposes and priorities set local will diverge from those set nationally and the more authority over national programs is vested in local officials the more that divergence will affect the operation of national programs.

The central issue involved in the block grant debate, therefore, is not simply a question of administrative efficiency, but whether the federal government or state and local governments should play the major role in setting and monitoring the purposes for which federally-generated resources and powers are used, and how that role, whatever it is, should be structured.

II. THE RISE OF THIRD-PARTY GOVERNMENT

What makes this issue especially important is the broader transformation that has occurred over the past several decades in the way the federal government operates.

The heart of this transformation is a shift from direct to indirect, or "third-party," government, from a situation in which the federal government provided services itself to a situtation in which it relies on a host of third parties—states, cities, hospitals, universities, banks, community organizations, manufacturing corporations, and others—to provide them instead.[1]

This change is evident in recent trends in federal spending and employment. While federal responsibilities and expenditures have mushroomed, federal employment has paradoxically remained relatively constant. Between 1960 and 1980, for example, federal spending doubled in real dollar terms, while federal employment increased only 20 percent.

What has made this possible is the fact that the federal government operates in the domestic sphere largely by remote control. It does very little itself. Rather, it relies on others to carry out its purposes instead.

Grants-in-aid to states and local governments are the classic vehicle for this pattern of third-party government. Reflecting this, grants-in-aid have grown massively over the past several decades, jumping from less than five percent of federal spending in 1955 to about 17 percent in 1979.

But grants-in-aid have now been overshadowed by a variety of other vehicles of third-party government, including loan guarantees, regulations, tax subsidies, insurance, and many others. New federal loan guarantee commitments, for example, are estimated to reach $120 billion in fiscal year 1981.

What is involved in all of these forms of government action is not simply the contracting out of clearly specified activities or the purchase of designated goods and services from outside suppliers. These are time-honored, traditional forms of government action.

What is distinctive about what I have termed "third-party government" is that it involves the sharing of responsibility over a far more basic—indeed the most basic—governmental function: the exercise of discretion over the use of public authority and the spending of public funds.

The central reality of much of federal domestic activity today is that a major share—indeed the lion's share—of the discretionary authority is actually exercised not by federal officials but by one or another non-federal implementer—by the 450 local prime sponsors in the CETA program, by state governments in the Title XX or Aid to Families with Dependent Children program, by local banks in the loan guarantee programs, by contractors in major systems acquisitions, and so on.

This pattern of public action represents an ingenious American contribution to the practice of government. By mobilizing the resources, energies, and skills of virtually all segments of the society in the pursuit of national objectives, third-party government has contributed dramatically to the productivity of the federal public sector. It has done so, moreover, in a way that builds on a long tradition of local control, private involvement, and voluntary action. Rather than massively expanding the federal service or establishing direct federal operations, we have fashioned our own unique way of addressing public problems that is neither wholly public nor wholly private, neither wholly federal nor wholly local, that is rather a complex blend of all of these that differs among different types of tools of public action and different substantive areas.

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[1] For a fuller elaboration of this point, see: Lester M. Salamon, "The Rise of Third-Party Government," Washington Post, June 29, 1980; and Lester M. Salamon, "Rethinking Public Management: Third-Party Government and the Changing Forms of Public Action," Public Policy (July 1981).

Unfortunately, however, our traditional theories of government and our conventional political rhetoric have yet to acknowledge these new realities. These theories and rhetoric posit sharp divisions between the public and private spheres and among the different levels of government; and they emphasize hierarchic patterns of authority following clear chains of command.

The pattern of government action we have been discussing here, however, involves a blurring of these sharp divisions and a pervasive sharing of authority. It thus makes much of the available theory and rhetoric if not wholly irrelevant, at least far less germane.

What makes this situation so painful is that this pattern of "third-party government" brings with it immense problems of management, accountability, and control for which conventional theories fail to prepare us. In a sense, these forms of government action have stretched the public management problem well beyond the borders of the public agency so that it now involves the manipulation of a far more far-flung network of actors over which the federal manager exercises precious little direct control but on whom he or she fundamentally depends for the successful pursuit of public purposes. Under these circumstances, federal program failures can probably be attributed less to the inefficiencies of the federal bureaucracy than to the curious indirect way we have required it to act.

III. BLOCK GRANTS IN PERSPECTIVE

Viewed against this backdrop, the current debate over block grants appears in a slightly different light. Comparatively speaking, the block grant represents one of the more extreme forms of third-party government. This is especially true of the version of the block-grant approach advanced earlier this year by the Reagan Administration, which would undercut much of the basis for federal administrative involvement in defining program purposes and monitoring performance and thus challenge the basic premise of shared governance that third-party government embodies.

Given the serious issues of accountability and management that surround this whole pattern of government action, and the goal displacement and alteration of purposes likely to result from further, drastic reductions of federal influence, it is important to be certain that the premises underlying the block grant approach are truly sound.

Unfortunately, however, in a number of cases they are not.

One of the chief arguments for block grants, for example, is the need for greater decentralization of federal program operations in order to improve efficiency and effectiveness. The whole thrust of the discussion above, as well as the record of most of the research on federal program operations, however, suggests that over-centralization is hardly the major problem of federal domestic programs. In point of fact, the federal government's ability to get its way even through categorical grants has been limited at best. State and local officials have proved remarkably adroit in holding federal administrators at bay, mobilizing the full resources of a locally-oriented political system to guarantee a substantial arena for local discretion and control in virtually every federal program. If we accept the need for joint federal and local involvement in the setting of program purposes and the monitoring of adherence to them, then the basic grant-in-aid mechanism already provides a suitable vehicle for it. The record of existing block grants suggests, by contrast, that to the extent they are designed to decentralize power further, block grants lead to substantial departures from federal purposes, particularly those purposes related to the targeting of benefits on those in greatest need.[2]

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[2] This and other points are made in the literature on block grants, including: Donald C. Baumer, Carl E. Van Horn, and Mary Marvel, "Examining Benefit Distribution in CETA Programs," Journal of Human Resources 14 (Spring 1979): 171–196; Bill Benton, Tracey Feild, and Rhona Millar, *Social Services: Federal Legislation* vs. *State Implementation* (Washington, D.C.: Urban Institute, 1978); George D. Greenberg, "Block Grants and State Discretion: A Study of the Implementation of the Partnership for Health Act in Three States," *Policy Sciences* 13 (April 1981): 153–181; Erwin C. Hargrove and Gillian Dean, "Federal Authority and Grassroots Accountability: The Case of CETA," *Policy Analysis* 6 (Spring 1980): 127–149; Donald F. Kettl, "Can the Cities Be Trusted?: The Community Development Experience," Political Science Quarterly 94 (Fall 1979): 437–451; Richard P. Nathan, Paul R. Dommel, Sarah P. Liebschutz, and Milton D. Morris, "Monitoring the Block Grant for Community Development," Political Science Quarterly 92 (Summer 1977): 219–244; Richard P. Nathan and Paul R. Dommel, "Federal-Local Relations Under Block Grants," Political Science Quarterly 93 (Fall 1978): 421–442; Carl W. Stenberg and David B. Walker, "The Block Grant: Lessons from Two Early Experiments," Publius 7 (Spring 1977): 31–60; Jerry Turem, Bill Benton, Rhona Millar, and Suzanne Woolsey, The Implementation of Title XX: The First Year's Experience, Working Paper 0990–08 (Washington, D.C.: Urban Institute, 1976); U.S. Advisory Commission on Intergovernmental Relations,

A second argument advanced in behalf of block grant reform concerns the complexity and cumbersomeness of the current grant-in-aid system, made up as it is of some 550 separate programs, each with its own purposes, procedures, and standards.

But this rationale for block grants, too, is flawed. For one thing, substantial progress has already been achieved in streamlining the grant-in-aid system. While there certainly are 550 separate grant programs, 80 percent of all federal grant dollars are now distributed through only 25 of them.[3] To be sure, further consolidation is still possible and desirable, but whether this requires the radical transformation in program operations suggested in the recent block grant proposals is more dubious.

Beyond this, the administrative-simplification rationale for block grants is weakened by the fact that the major administrative problems with the grant-in-aid system today result not from the proliferation of separate grants but from the proliferation of cross-cutting policy and adminstrative requirements applied to the grants through a varity of separate legislative enactments. However, this problem can be dealt with directly through legislative and administrative action without the need for the basic disruption of the historic pattern of shared governance contemplated in the recent block grant proposals.

A third argument advanced for block grants, finally, is that local governments are better able to design solutions to local problems than is the federal government—a corollary, in a sense, to the first argument above. But this argument, too, begs as many questions as it answers. There is, first of all, the question of which local government. Many cities, for example, find their interests and problems better attended by the federal government than by their own state governments, even though the states are closer to home. In addition, local control brings with it susceptibility to local political pressures that may make it more—not less—difficult to address local problems in the most efficient way. The experience with block grants to date, for example, suggests that these local pressures have encouraged a more scattered distribution of benefits, a shorter term time perspective, and a greater diversion of resources away from those in greatest need than the prior federal programs. Finally, there remains the central issue of whether federal funds should serve locally defined goals alone, or whether they should be used in way that guarantee the promotion of national objectives as well.

This is not to say that block grants have nothing to recommend them. To the contrary, the ones already enacted have significantly improved the grant-in-aid system in a variety of ways, streamlining its basic structure, vesting more power in the hands of general purpose units of government rather than special districts or narrow specialists, and facilitating coordinated approaches to public problems.

Additional block grants might also prove helpful. But these should consolidate existing programs without emasculating the central principle on which the whole pattern of third-party government rests: a principle that stresses the sharing, not the surrender, of authority; the legitimacy of different federal and state/local perspectives and purposes; and the maintenance of a set of relationships based on bargaining and negotiation.

IV. A FIVE-POINT PROGRAM OF INTERGOVERNMENTAL REFORM

What these comments suggest is that present conditions call for a more modest program of reform than the one originally contemplated in the radical block-grant strategy outlined earlier this year. In particular, such a program might usefully involve five key points.

1. Shared governance

In the first place, there is a need to affirm explicitly the validity of the pattern of shared governance that underlies much of federal domestic activity today. Among other things, this requires clearer recognition of the legitimacy of the differences in perspective among federal, state, and local governments in the grant-in-aid system, and the maintenance of forms of interaction that allow these differences to be worked out. In particular, there needs to be a reassertion of the validity and usefulness of the national perspective on domestic problems and a programmatic and organizational structure that allows that perspective to be pursued with the minimum of complexity and burdensomeness.

Block Grants: A Comparative Analysis (Washington, D.C.: U.S. Government Printing Office, 1977); Walter Williams with Betty Jane Narver, Government by Agency: Lessons from the Social Program Grants-in-Aid Experience (New York: Academic Press, 1980).

[3] U.S., Office of Management and Budget, Special Analyses, Budget of the United States Government, Fiscal Year 1982 (Washington, D.C.: U.S. Government Printing Office, 1981): pp. 225–256.

2. Decategorization

Within the basic framework of shared governance, efforts should be made to streamline the grant system wherever possible, to consolidate similar programs and offer greater flexibility in the pursuit of valid national objectives. Indeed, so long as the basic parameters of shared governance are protected, I wold favor legislation similar to the reorganization authority to facilitate the consolidation of separate grant programs on an expedited basis.

3. Cross-cutting requirements

Because the most serious problem in the management of the grant-in-aid system today is the confusing set of cross-cutting policy and procedural requirements that apply to individual programs, special priority needs to be given to simplifying these requirements regardless of the progress of further grant consolidation.

4. Improved field capability

Whatever the ultimate structure of the grant-in-aid system, important work needs to be done at the ground level, where the bargaining relationships that are the heart of shared governance are ultimately worked out. What is needed here are several kinds of actions:

Improved capacity building for state and local officials to equip them to operate effectively in particular programs areas;

Encouragement of local strategy-setting on the part of federal authorities by channelling federal assistance in ways that are consistent with local strategies; and

Upgrading of the field operations of federal agencies, converting them into true transmission belts of federal purposes with the authority and flexibility to strike the needed bargains with state and local officials.

5. Explicit attention to the choice of tools

Finally, much more explicit attention needs to be given to the choice of tools or instruments for pursuing public objectives, including not only various forms of grants, but also the broad assortment of other tools of public action now in widespread use. This choice of tools can materially affect the outcome of public activities, yet these effects are rarely examined and are poorly understood. What is needed is a more systematic body of knowledge about the consequences of using particular tools, and a determination to draw on this knowledge in the operation and design of public programs.

CONCLUSION

"A government ill-executed," Alexander Hamilton noted in Federalist No. 70, "whatever it may be in theory, must be in practice a bad government."

Regrettably, government in the United States has been "bad government in this sense for a number of years and is in danger of losing public confidence as a result.

While some would react to this situation by further undermining governmental effectiveness and limiting public sector capabilities, an alternative approach is to examine how public programs can be better executed and to take steps to improve them.

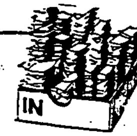
Through the present hearings, your Committee is taking an important step in this latter direction, and for this, all of those concerned about improved public management, about good government in Hamilton's sense, owe you a debt of gratitude.

The Washington Post

Sunday, June 29, 1980

Lester M. Salamon

Rise of Third-Party Government . . .



The Post's recent series by Jonathan Neumann and Ted Gup on federal research contracting deals with a single, if revealing, part of a larger transformation that has taken place in the federal enterprise. This transformation involves a fundamental change in the way the federal government carries out its business, a change that has been under way for more than a generation but that is still only dimly perceived.

The heart of this change is a shift from direct to indirect or "third-party" government, from an arrangement in which the federal government ran its own programs to one in which it relies primarily on others—states, cities, special districts, banks, nonprofit corporations, hospitals, manufacturers and others—to carry out its purposes instead.

To be sure, press accounts still speak of this or that "federal program." But those who work in the federal bureaucracy know that these are merely euphemisms behind which lies a cruel reality in which federal officials are regularly held responsible for programs they do not really run.

Few federal bureaucrats have been the object of more derision than those responsible for "the federal welfare program." In point of fact, however, no such entity exists. This "federal" program is really 50, or 3,000, different programs run by state and local officials who use federal funds but who have the discretion to make their own decision about who is eligible for assistance, over what period of time, under what conditions and at what level of benefits.

Similarly, the $6 million to $8 billion that Congress annually appropriates for employment and training assistance goes not to the Department of Labor, which is regularly held responsible for its wise use, but automatically to more than 450 local "prime sponsors," which are organized by local politicians and community groups and over which the Labor Department has precious little control. "We don't even know who's in charge of these prime sponsors," one department official recently pointed out. "How can we be expected to control them?"

In area after area, the same pattern holds. Indeed, third-party government now dominates the federal domestic-program landscape, though this has yet to be fully appreciated, let alone carefully analyzed and assessed.

What is involved here is not simply the contracting out of well-defined functions or the purchase of specified goods and services from outside suppliers. The distinctive feature of "third-party government" is that what is being delegated and shared is a far more basic governmental function—the exercise of discretion over the spending of federal funds and the use of public authority.

The central reality of most federal programs today is that the lion's share of discretionary authority is vested not in federal officials, but in one or another of a wide array of non-federal implementers.

The classic vehicle for this third-party government is the "grant-in-aid," through which federal resources are put at the disposal of state and local officials to assist them in carrying out a federal goal.

From its meager beginnings in the 19th century, the grant-in-aid device has mushroomed into a massive system of intergovernmental action. More than 500 separate grant-in-aid programs are now on the books, providing aid for everything from emergency medical services to the construction of interstate highways. Since 1955 alone, grant-in-aid funding has grown 26-fold, three times faster than the budget as a whole. By 1980, therefore, almost half of all federal outlays for domestic purposes, aside from Social Security and other direct income transfers, went out in the form of grants-in-aid to non-federal government or quasi-governmental entities.

But grants-in-aid have now been joined by a host of other ingenious devices for sharing federal authority with non-federal actors—credit insurance, loan guarantees, tax incentives, regulations and new forms of contracting and procurement. Here as well, federal officials retain responsibility but are required to surrender much of the operational authority.

In loan guarantee programs, for example, the key decisions are made by private bankers, who process the loan applications and extend the credit that the federal government then guarantees. In the procurement of major military systems, the federal government increasingly depends on contractors not just to provide specified pieces of equipment, but to conceive and design whole weapons systems of enormous complexity.

Since they do not show up in federal budget totals, many of these latter forms of third-party government have gone largely unnoticed. Yet their scale is tremendous. In fiscal year 1979, for example, the federal government assumed over $100 billion in new loan or loan guarantee commitments, provided $125 billion in special tax incentives, and exacted regulatory costs totaling $80 billion to $100 billion—in all, a "hidden budget" in excess of $300 billion.

This curious pattern of third-party government is a natural byproduct of political pressures and of the love-hate relationship Americans have long had with the federal government.

The grant-in-aid device came of age during the New Deal as a political response to the conservative argument that New Deal programs violated states' rights. Since then, cutting key user groups into a piece of the action has been a standard prerequisite for gaining their support for federal undertakings. The third-party approach has also been dictated by federal personnel ceilings and budget pressures, which have clamped a lid on federal employment despite often dramatic expansions of federal programs and responsibilities.

The advantages of this approach, moreover, have been substantial. Through it, the federal government has been able to tap the talents and resources of a wide assortment of different institutions and sectors, to adapt national programs to local circumstances and to limit the growth of the federal bureaucracy. Thanks to the emergence of a third-party government over the past 30 years, it has been possible to hold the federal work force to a growth rate of only 50 percent, while the federal budget increased in real terms by 300 percent and the number of federal programs increased 30- or 40-fold.

But these advantages are purchased at significant cost, for third-party government brings with it immense problems of management, major impediments to coordination and profound issues of accountability arising from the fact that those who now exercise federal authority are not responsible to the Congress that authorizes the programs.

Whether these problems can be overcome remains to be seen. The first step, however, is to educate the nation about how the federal enterprise actually operates. While exposés that poke fun at the madcap behavior that sometimes results from this brave new world of third-party government can help, there is a danger that the resulting bemusement or cynicism will deflect attention from the underlying cause and add to the problem rather than to the cure.

For, if the argument here is correct, much of the problem results not from the malfeasance or incompetence of federal bureaucrats, but from the curious way we have required them to operate. No amount of preachment about better management or tighter controls can afford to overlook this central fact.

The writer was deputy associate director for organization studies at the Office of Management and Budget from 1977 to 1979.

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RETHINKING PUBLIC MANAGEMENT: THIRD-PARTY GOVERNMENT AND THE CHANGING FORMS OF GOVERNMENT ACTION

Lester M. Salamon

ABSTRACT

Rethinking Public Management: Third-Party Government and the Changing Forms of Government Action

Efforts to understand public management and program implementation have so far failed to acknowledge the massive proliferation in the forms of government action that has occurred over the past several decades. The widespread use of tools like loans, loan guarantees, social regulation, insurance, government corporations, tax incentives, various types of grants, and others--many of which involve the pervasive sharing of governmental authority with a host of "third parties" (hospitals, universities, states, cities, industrial corporations, etc.)--has significantly altered the practice of public management and rendered the traditional preoccupations of public administration, if not obsolete, then at least far less adequate. To come to terms with the new reality, it will be necessary to change the unit of analysis in public management and implementation research from the individual program or agency to the generic tools of government action, and to develop a systematic body of knowledge about the dynamics and characteristics, the distinctive "political economies" and resulting advantages and disadvantages, of the different "tools" through which the public sector now acts.

RETHINKING PUBLIC MANAGEMENT

THIRD-PARTY GOVERNMENT AND THE CHANGING FORMS OF GOVERNMENT ACTION

LESTER M. SALAMON

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The new field of implementation research has already become stuck in a rut. Like Antimachus' hedgehog, which knew only one big thing, both students and practitioners of implementation have taken to discovering repeatedly a single, simple truth: that programs cannot work if they are poorly managed. "The Federal manager holds the key to successful agency performance," is how the Manager's Handbook recently issued by the U.S. Office of Personnel Management states the case, and few implementation studies would suggest any reason for doubt. If only more attention were given to implementation and management, goes the now-standard refrain, government effectiveness would surge and Howard Jarvis be forced to turn tail.

Without doubting the crucial importance of good management, it seems clear that "public management" is fast becoming for students of policy implementation what "political culture" became for students of political development: a kind of universal solvent expected to unravel all mysteries and explain all problems. What this rare substance really looks like, whether its needed properties differ systematically from program to program, and whether it can really be weighed and assessed are all questions that have rarely been raised, let alone examined in depth. Most important, perhaps, while demonstrating that poor management is associated with poor performance, no one seems to be able to show that the converse is true, giving rise in some quarters to the conclusion that it is not the absence of management, but the presence of government, that is the real explanation of public-program failure.[1]

The argument of this essay is that implementation research is fast heading for a dead-end not because of any failings in research, but because of a weakness in theory. The function of theory, it is well to remember, is not simply to provide "explanations," but to raise useful questions and, perhaps most importantly, to identify the most fruitful unit of analysis for coming to terms with the central problems in a field.

It is the argument here that the major shortcoming of current implementation research is that it focuses on the wrong unit of analysis, i.e. the individual program, and that the most important theoretical breakthrough would be to identify a more fruitful unit on which to focus analysis and research. In particular, rather than focusing on individual programs, as is now done, or even collections of programs grouped according to major "purpose," as is frequently proposed, the suggestion here is that we should concentrate instead on the generic tools of government action, on the "techniques" of social intervention that come to be used, in varying combinations, in particular public programs.

To demonstrate this point, this paper first examines the dramatic transformation of the public sector that makes greater attention to the tools of government action so important, then outlines briefly some of the major analytical issues this approach would entail, and finally comments on the contribution it could make to our understanding of public policy and policy implementation. The purpose in this preliminary account is not to develop a full-blown new theory of implementation, but to point the way toward which such theory might fruitfully evolve.

I.

The Rise of Third Party Government and the Changing Forms of Public Action

The Problem

The need for greater attention to the tools and techniques of public action should be apparent to anyone who has looked closely at recent trends in Federal government activity and operations. While political rhetoric and a considerable body of academic research continue to picture the Federal government as a rapidly expanding behemoth growing disproportionally in both scope and size relative to the rest of the society in order to handle a steadily growing range of responsibilities, in fact something considerably more complex has been underway. For, while the range of Federal responsibilities has indeed increased dramatically, the relative size of the federal enterprise, in terms of both budget and employment, has paradoxically remained relatively stable. Between 1954 and 1979, for example, the rate of growth of the Federal budget just barely exceeded that of the Gross National Product (GNP), so that the budget's share of the GNP increased only from 19.4 to 20.9 percent. Even more importantly, the rate of growth of Federal civilian employment lagged far behind the real growth of the budget, so that the number of Federal employees per 1,000 people in the population registered a decline during this 25-year period of more than 10 percent.

What accounts for this paradox of relatively stable budgets and declining employment despite substantial growth in responsibilities is the dramatic change that has occurred in the forms of Federal action. For one thing, a major expansion has taken place in the tools of government action, as the Federal government has turned increasingly to a wide range of new, or newly expanded, devices, many of which do not appear in the budget. In the process, moreover, a significant transformation has taken place in the way the Federal government goes about its business--a shift from direct to indirect or "third-party" government, from a situation in which the Federal government ran its own programs to one in which it increasingly relies on a wide variety of "third parties"--states, cities, special districts, banks, hospitals, manufacturers, and others--to carry out its purposes instead.[2]

In both respects recent developments have clear historical antecedents. Yet the recent developments have been so substantial as to constitute a qualitative, and not just a quantitative, change.

Illustrative of this has been the transformation that has occurred in the grant-in-aid system, perhaps the classic instrument of what is here termed "third-party government." From its meager beginnings in the nineteenth century, the grant-in-aid device has mushroomed into a massive system of inter-organizational action. More than 500 grant-in-aid programs are now on the books, making Federal resources available to state and local governments for everything from emergency medical services to the construction of the interstate highway system. Since 1955 alone, grant-in-aid funding has grown 26-fold, three times faster than the budget as a whole. By 1979, therefore, grants-in-aid accounted for about 17 percent of all Federal budget outlays, and over 40 percent of all domestic expenditures aside from direct income transfers like Social Security. What is more, the basic structure of the grant-in-aid system also changed markedly, with the introduction of new forms of grants (project grants, formula grants, general revenue sharing) and a massive proliferation in the numbers and types of entities--cities, counties, special districts, non-profit corporations, etc.--that, along with the states, are now eligible for direct grant assistance.[3]

But the recent changes in the forms of Federal government action extend far beyond the transformation of the grant-in-aid system. Indeed, the grant-in-aid is now overshadowed by a host of other ingenious tools for carrying out the public's business--loans, loan guarantees, new forms of regulation, tax subsidies, government corporations, interest subsidies, insurance, and numerous others.

Since many of these latter tools are not reflected in Federal budget totals, they have attracted far less attention. Yet their scope and scale are massive and growing. In fiscal year 1979, for example, the Federal government made more than $100 billion in new loan or loan guarantee commitments for purposes as diverse as college education and crop supports. Federal regulatory activities, once primarily economic in focus, have now become major vehicles for the promotion of a wide array of health, safety, environmental, and social goals. Between 1970 and 1975 alone, seven new regulatory agencies were created, 30 major regulatory laws were enacted, and the number of pages published annually in the Federal Register tripled.[4] Various estimates place the cost of these regulatory activities at anywhere from $40 billion to $120 billion annually. Increased use has also been made of the tax code as an instrument of policy, as tax deductions have been provided to encourage the hiring of the unemployed, to stimulate energy conservation, and for a host of other reasons. By 1979 the estimated total value of these "tax subsidies" stood close to $150 billion, up from $40 billion a decade earlier.[5] Beyond this, a number of government-sponsored enterprises have been created--Conrail, Amtrak, the U.S. Railway Association, Comsat, the Government National Mortgage Association--and various policy goals are also pursued through Federal underwriting of insurance. This latter activity alone now involves some $2 trillion in contingent liabilities for the Federal government.

The proliferation, expansion, and extension of these and other tools of Federal policy have substantially reshaped the landscape of Federal operations. Instead of a single form of action, virtually every major sphere of Federal policy is now made up of a complex collage of widely assorted tools involving a diverse collection of different types of actors performing a host of different roles in frequently confusing combinations.

What is involved here, moreover, is not simply the contracting out of well-defined functions or the purchase of specified goods and services from outside suppliers. The characteristic feature of these new tools of action is that they involve the sharing of a far more basic governmental function: the exercise of discretion over the spending of Federal funds and the use of Federal authority. They thus place Federal officials continually in the uncomfortable position of being held responsible for programs they do not really control.

The $6 billion to $8 billion that Congress annually appropriates for employment and training assistance, for example, goes not to the Department of Labor, which is regularly held accountable for its wise use, but automatically to more than 450 locally organized "prime sponsors," which enjoy substantial discretion in selecting both the training and the trainees, and over which the Labor Department has only limited control. In the loan guarantee programs, many of the key decisions are left to private bankers, who process the applications and extend the credit that the Federal government then guarantees. Even in the procurement area important changes of the same sort have taken place, as the government has been forced to rely on outside suppliers not only to provide products and services that the government has conceived and designed, but, at least in the acquisition of major systems, to do much of the conception and design work as well.[6]

What makes this situation especially problematic, moreover, is that those who exercise authority on the Federal government's behalf in these programs frequently enjoy a substantial degree of autonomy from Federal control. State and local government agencies, for example, have their own sources of independent political support, while many of the Federal government's private partners frequently find themselves in the fortuitous position of needing the Federal government less than the Federal government needs them. Instead of a hierarchical relationship between the Federal government and its agents, therefore, what frequently exists in practice is a far more complex bargaining relationship in which the Federal agency often has the weaker hand.

The Implications

This set of changes has profound implications for the character of democratic government and the management of public programs. In the first place, it raises serious questions of accountability because those who exercise public authority in these programs are only tangentially accountable to the elected officials who enact and oversee the programs. This is all the more troublesome, moreover, because many of the "third-party" implementers are especially touchy about the exercise of Federal oversight, creating pressures to restrict accountability to narrow, technical questions of fiscal control and administrative procedure and sidestep more value-laden issues of program results.

Closely related to these questions of accountability, moreover, are serious issues of management. In a word, many of these new forms of action render the traditional concerns of public administration and the traditional techniques of public management if not irrelevant, then at least far less germane. The "street-level bureaucrats"[7] in these forms of action are frequently not public employees at all, but bankers and businessmen, hospital administrators and corporate tax accountants. Under these circumstances, a body of knowledge that focuses on how to organize and operate a public agency, how to motivate and supervise public employees, has far less to say. What is needed instead is a far more complicated political economy of the tools of public action that clarifies the incentives of the non-Federal actors, helps inform choices about the appropriateness of different tools for different purposes, and provides guidance about how Federal managers can bargain more successfully to shape the behavior of the erstwhile allies on whom they are forced to depend. Under these circumstances, public management takes on a whole new dimension that the implementation literature has yet to acknowledge.

Finally, these changes in the forms of government action have important implications for the coordination of government activities. The problems the Federal government has recently been called upon to resolve--poverty, urban distress, environmental degradation, etc.--can rarely be solved through individual programs. To address them meaningfully requires the successful orchestration of a number of different activities. Yet, the program structure that has evolved, by parcelling varied chunks of authority among a number of different actors in ways that are barely visible let alone subject to control, complicates the task of coordination and taxes the integrative institutions of government.

II.

A New Focus for Public Management Research

What these comments suggest is that the failures of public action about which so much has been written may result less from the incompetence or malfeasance of government managers than from the tools we have required them to use and the curious ways we have required them to act. Under these circumstances, the improvement of government performance requires not exhortations to better management, but a clearer understanding of the tools through which the government's business is performed.

It is the argument here that the development of such a systematic body of knowledge about the alternative tools of public action is the real "missing link"[8] in the theory and practice of implementation. Filling it, however, will require a basic reorientation of existing research and the acceptance of a new unit of analysis focused on alternative tools of intervention rather than individual programs of action.

The Existing State of Knowledge

This is not the first time attention has been called to the importance of examining the tools of government action. No less authorities than Robert Dahl and Charles Lindbloom argued almost thirty years ago that the proliferation of new techniques of social action had displaced the competition of ideologies in the Western world and represented "perhaps the greatest political revolution of our times."[9]

If so, however, it has been the least well examined such revolution also. For, despite the impressive endorsement, the systematic study of the techniques of government action has hardly gotten off the ground. To be sure, some impressive work has been done in identifying the various Federal "subsidy" programs and calculating their costs and distributive effects.[10] What is more, some individual tools have been examined in depth.[11] But there has been a virtual absence of systematic comparative work or efforts to view the changing forms of action as a whole.[12] And most tools have hardly been scrutinized at all.

As late as 1977, for example, the Congressional Budget Office found that no comparative data existed on default rates, risk factors, or other key features of Federal loan guarantee programs, even though these programs involved assets in excess of $300 billion.[13] A special Interagency Council on Accident Compensation and Insurance reported just last year that it could not only not provide an accurate estimate of the contingent liabilities the Federal government has incurred through its various insurance programs, but also that it could not even determine how many such programs exist.[14] Although regulatory programs have been examined more closely, much of this work has focused on the more traditional economic regulation rather than the newer "social" regulation. What is more, some of the key operational features of regulatory programs, such as the relationships between Federal and state authorities, have been "little explored."[15] Indeed, it was not until 1978 that the first list of Federal regulatory programs was even compiled.[16]

In short, whatever value there is in developing a systematic body of knowledge about the tools of public action--and the argument here is that it is great--that body of knowledge is still far from complete. As the U.S. Office of Management and Budget recently concluded after an intensive two-year study:

> ...the relative effectiveness of different forms of assistance such as grants, loans, and risk assumption for meeting different types of program objectives has not been systematically reviewed in the public literature. In light of the scope, magnitude, and importance of assistance as a tool of national leadership, much more needs to be known.[17]

Lest the present call for more attention to the tools of government action go the way of the earlier one, therefore, it may be well to explore, at least preliminarily, how such an approach might be structured and what it would entail.

Central Premise

The central premise of the reorientation of implementation analysis that is suggested here is that different tools of government action have their own distinctive dynamics, there own "political economies," that affect the content of government action. This is so for much the same reasons that particular agencies and bureaus are now considered to have their own personalities and styles--because each instrument carries with it a substantial amount of "baggage" in the form of its own characteristic implementing institutions, standard operating procedures, types of expertise and professional cadre, products, degree of visibility, enactment and review processes, and relationships with other societal forces.

A loan guarantee program, for example, will typically involve reliance on local bankers, who tend to approach their responsibilities with a "risk minimization" perspective, who tend to resist nonfinancial criteria for program operation or evaluation, and who traditionally utilize conservative tests of soundness. In addition, such programs: (1) regularly escape review by executive branch or Congressional budget agencies; (2) are most closely scrutinized, if at all, by the Treasury Department; (3) are the province of the Banking Committees, not the Appropriations Committees, in the Congress; and (4) are of special concern to the Federal Reserve and the financial community generally because of their potential implications for the allocation of credit in the economy.

It is reasonable to assume that these features systematically affect the operation of this type of program and that they are quite different from the comparable features affecting a grant-in-aid or tax incentive program. When Congress decided in the early 1930s to shift from a direct loan to a loan-guarantee form of program to cope with the urban housing problem, for example, it wittingly or unwittingly built into the nation's housing policy the prevailing perspectives of the bankers and realtors who help to operate the program locally. The result, as the Douglas Commission reported in 1968, was to confine benefits "almost exclusively to the middle class, and primarily only to the middle section of the middle class," while "the poor and those on the fringes of poverty have been almost completely excluded" on grounds that they were "bad credit risks and that the presence of Negroes tended to lower real estate values."[18]

In short, each tool involves a finely balanced complex of institutional, procedural, political, and economic relationships that substantially shape the character of the government action that results. By the same token, however, these features affect the likelihood that different tools will be enacted. In other words, the choice of program tool is a political, and not just an economic, issue: it involves important questions of power and purpose as well as of equity and efficiency.

Two questions thus form the core of the analysis of tools of government action that is suggested here:

(1) What consequences does the choice of tool of government action have for the effectiveness and operation of a government program?

(2) What factors influence the choice of program tools? In particular, to what extent are political or other administrative or symbolic reasons involved? Why are some tools chosen over others for particular purposes?

Basic Analytics

To answer these questions, it is necessary to begin with a clearer understanding of the major types of program tools, and the central differences among them. At a minimum, this requires a basic descriptive typology of program tools. Under current circumstances, however, even such a basic descriptive framework is unavailable. The Catalog of Federal Domestic Assistance, for example, lists fifteen types of Federal assistance ranging from "Formula Grants" through "Dissemination of Technical Information." However, the Catalog ignores many critical program tools--e.g., tax incentives, regulations, government-sponsored corporations. In addition, the Catalog's groupings obscure many important program distinctions (e.g., it groups "interest subsidies" along with Social Security payments under the general category of "Direct Payments for Specified Use").

Even more important than a descriptive framework, however, is the formulation of a more cross-cutting set of analytical categories in terms of which the various tools can be measured and assessed, and on the basis of which reasonable hypotheses, geared to the two questions above, can be generated and tested. Since this is the more difficult task, it may be useful to sketch out here in a purely suggestive way some of the major dimensions such an analytical framework might entail and some of the hypotheses it might support. Although the discussion here draws on the existing literature where available, it should be clear that the intent is to stimulate further thinking rather than to advance a definitive framework for the field. In this spirit, five possible dimensions of the tools of government action seem worthy of attention:

1. The Directness/Indirectness Dimension: The first such dimension concerns the extent of reliance on non-federal actors that a particular tool entails. Direct federal activities have long been suspect in American government, as much out of a philosophical hostility to concentrated governmental power as out of a concern about the rigidity and unresponsiveness supposed to accompany centralized operations. Recent research on the implementation of public programs suggests, however, that indirect forms of action have their own substantial drawbacks. Pressman and Wildavsky demonstrate convincingly, for example, that federal efforts to encourage economic development and employment in Oakland were frustrated by a form of action that vested critical responsibilities in a large number of federal and non-federal actors, each of whom had his own priorities and perspectives that had to be reconciled anew at each of several dozen decision points that stood between program conception and completion.[19] Similarly, Chase

found that the most serious problems in implementing three social service programs in New York City all involved "some player or players in the implementation process whom the program manager does not control but whose cooperation or assistance is required."[20] And Berman differentiates between the "macro-implementation" of a program and its "micro-implementation" to emphasize the looseness of the tie between the adoption of a policy and its actual operation by a largely autonomous local agent.[21]

What is important about the use of indirect forms of action is not simply the administrative complexity of the resulting program structure, however. Of equal or greater importance is the incongruence that can arise between the goals of the federal government--as articulated, however imperfectly, in legislation, report language, or regulations--and the goals of the non-federal implementing agents. This is clearly the case when the agent is a for-profit corporation. But it is equally true of state and local governments since different interests, different priorities, and different concerns find effective expression at different levels of government. Proposals to turn more decisionmaking power over to the states and localities thus involve more than questions of administrative efficiency; they also involve questions of program purpose and substance.

Taken together, these considerations suggest the following tentative hypothesis:

> <u>Hypothesis 1: The more indirect the form of government action, i.e., the more it places important discretionary authority in the hands of non-federal actors, and the more the interests and goals of these actors diverge from those of the federal government, the more difficult will be the implementation of the resulting program and the less likely will the program be to achieve its goals.</u>

To the extent this hypothesis is true, it raises significant questions about why so much of federal action now relies upon basically indirect devices. The answer, it appears, is that the dictates of implementation frequently diverge from the imperatives of enactment. In the first place, the success of federal programs frequently depends on access to a resource under some third-party's control. Delivering a degree of authority to this third party is often the only way to get the program the resources it needs. This is especially true in view of a second factor, the hostility of key producer and provider groups (including state and local governments) to federal competition in their fields. The price of political acquiescence in the establishment of a federal role, therefore, is frequently the acceptance by the federal government of a tool of action that cuts these third parties into a meaningful piece of the federal action. Finally, as already noted, the use of indirect devices has strong philosophical and ideological roots because the protection of the private sector from governmental intervention and the preservation of state and local autonomy are viewed as political values in their own right, worth protecting even at the cost of some sacrifice of administrative efficiency or national purpose. What this suggests is a companion hypothesis as follows:

Hypothesis 2: The more direct the form of government action, the more likely it is to encounter political opposition.

2. The Automatic/Administered Dimension: A second key dimension of different instruments of government action concerns the extent to which they rely on automatic, as opposed to administered, processes. An automatic process is one that utilizes existing structures and relationships (e.g., the tax structure or the price system) and requires a minimum of administrative decisionmaking. A tax credit automatically available to all firms investing in new plant or equipment, for example, would represent a largely automatic tool. A similar sum made available through grants on the basis of separately reviewed applications would represent a more highly administered tool.

Generally speaking, automatic tools are operationally more efficient since they involve less administrative oversight and transaction cost. They are also less disruptive of ongoing social processes, such as the price system and the market. This suggests the following hypothesis:

Hypothesis 3: The more automatic the tool of government action, the easier to manage, the fairer the operation, and the less disruptive the side effects.

Despite these hypothesized advantages, however, instruments that rely upon essentially automatic processes have significant drawbacks. For one thing, there is far less certainty that they will have the results intended, especially when they are attached to processes with far different purposes. A program that seeks to promote worker safety by levying higher disability insurance charges on companies with poor safety records rather than by imposing detailed safety regulations, for example, may continuously be in the position of doing too little too late. In addition, while promoting administrative efficiency, such tools can sacrifice "target efficiency," the effective targeting of program benefits. A tax credit program aimed at encouraging additional productive investment in plant and euipment, for example, may end up delivering substantial benefits to firms that would have made these investments anyway, or freeing resources for forms of investment that are non-productive and speculative. Those most concerned about the achievement of program objectives and the targeting of program resources may consequently be wary of tools that lack sufficient controls. These considerations thus suggest the following additional hypothesis:

Hypothesis 4: The more automatic the tool of government action, the less certain the achievement of program purposes, the greater the leakage of program benefits, and the more problematic the generation of needed political support.

3. The Cash vs. In-Kind Dimension: In assistance-type programs in particular, important differences exist between programs that deliver their benefits in the form of cash and those that deliver them in-kind. Cash-type programs reserve far more flexibility to recipients, and are typically easier to administer. In-kind programs (e.g., food stamps, housing assistance), by tying benefits to a particular service or good, constrain

recipient choices, often providing more of a particular good than a recipient would freely choose and thereby reducing the marginal value of the benefit to the recipient. This suggests the following hypothesis:

> Hypothesis 5: Programs that utilize cash assistance are easier to manage and more highly valued by recipients than programs that provide assistance in kind.

While cash forms of assistance have attractions from the point of view of recipients, however, they have drawbacks from the point of view of building political support. In the first place, in-kind programs, by committing resources to the purchase of a particular good or service, can stimulate support from the producers of that good or service that would otherwise not exist. The food stamp program, for example, enjoys support from agricultural and farm interests that would not be forthcoming for a general, cash income-assistance program. Similarly, builder support for aid to the poor is much stronger for programs that tie such aid to the production of housing than for programs that make such assistance available in the form of cash. In the second place, in-kind assistance is more likely to go for the purposes intended than is outright cash. Those who make a case for assistance in terms of a particular need may therefore feel obliged to champion the delivery mechanism most certain to apply that assistance to that particular need. What these considerations suggest, therefore, is the following companion hypothesis:

> Hypothesis 6: The greater the reliance on in-kind tools of action, the greater the prospects for political support.

4. The Visibility-Invisibility Dimension: Because of the structure of the budget and legislative processes, certain tools of government action are far less visible than outright grants. "Entitlement" programs, which establish legal rights to program benefits independent of the budget, are far less closely scrutinized than programs that are subject to yearly control. In some cases, the costs of federal action are not even known. This is the case, for example, with regulatory actions, the true impact of which appears, not in the federal budget, but in the balance sheets of the regulated industries. What this suggests is the following hypothesis:

> Hypothesis 7: The less visible a tool of government action is in the regular budget process, the less subject it will be to overall management and control.

To the extent this hypothesis is correct, it follows that invisibility is a politically attractive attribute of a tool. Indeed, research by Pfaff and Boulding in the early 1970s found that the less visible federal subsidies delivered most of their benefits to the better off while assistance to the poor came in far more visible forms.[22] What this suggests is the following hypothesis:

Hypothesis 8: The less visible the costs of a tool, the more attractive the tool will be to those who will benefit from it. The more powerful the beneficiaries, therefore, the more likely they will be to receive whatever benefits they secure through less visible tools.

5. Design Standards vs. Performance Standards for Program Control: Attention to the instruments of government action has implications not only for basic choices among different tools, but also for decisions about how different tools, once chosen, are managed. One of the central issues in this regard is the extent to which reliance is placed on performance standards as opposed to design standards in program operations. Design standards involve controls over detailed aspects of program operations: accounting procedures, fund transfers among different program accounts, personnel recruitment procedures, specific technological processes to adopt to reduce air pollution at particular types of sites. Performance standards, by contrast, specify desired outputs but leave to the discretion of program managers or their third-party agents the decisions about how to design activities to achieve these outputs. Students of social regulation have faulted much of the federal government's recent regulatory effort in precisely these terms, arguing that by placing too much stress on design specifications (e.g., the location and numbers of fire extinguishers in industrial plants), rather than performance standards (the days lost through fires), these activities end up being far less efficient economically and far more cumbersome administratively than is necessary.[23] Similar observations have been made about other programs where detailed restrictions are imposed on the mix of inputs (e.g., the ratio of welfare case workers to recipients) rather than focusing attention on outputs (e.g., the reduction of dependency).[24] What these findings suggest is the following hypothesis:

Hypothesis 9: The more a form of government action uses performance standards instead of design regulations, the less cumbersome it is administratively and the more efficient is its use of resources.

Attractive as performance standards are, however, they are not without their problems. For one thing, program purposes are frequently kept deliberately vague in order to hold together the political coalition often required for passage. Moreover, programs often serve multiple purposes, and opinions can differ over the priorities to attach to each. In addition, the measurement of success and failure in terms of particular performance criteria can often be quite subjective, creating added possibilities for conflict and confusion, especially where responsibility for program decisions is split between federal authorities and their "third-party" agents. Finally, the use of performance involves greater uncertainty since results are not apparent for a considerable time and great opportunity exists for mistakes along the way. Those responsible for program oversight can therefore be expected to find such uncertainty exceedingly unattractive. Based on these considerations, therefore, the following hypothesis seems plausible:

Hypothesis 10: The more a tool involves reliance on federally determined performance standards, the more likely it is to encounter political opposition and resistance from its administrators.

6. Summary--The Public Management Paradox: Taken together, the hypotheses identified above suggest an important paradox that may lie at the heart of much of the recent disappointment with federal program performance. Simply put, this paradox is that the types of instruments that are most likely to achieve their goals may be the hardest to enact; and conversely, the forms that are most likely to be enacted are also the most difficult to carry out.

III.

Conclusions and Implications

Whether the hypotheses outlined here are accepted or rejected, the discussion should demonstrate the character and range of issues that open up when the unit of analysis in implementation research is changed from the individual program to the generic tools of government action. These are not, moreover, simply theoretical issues. They are tangible questions that face decision-makers day-to-day as they decide whether to use a regulation, a tax credit, a grant, or a loan guarantee to encourage electric utilities to switch from oil- to coal-powered generators; or whether to build an economic development strategy on the basis of grants to local governments, loan guarantees through private banks, employment tax credits to business, or equity assistance to community development corporations.

Up to this point, these decisions have not been informed by any systematic understanding of the consequences that the choices of tools of government action have for the operations of public programs. As a result, the political pressures have not encountered any analytical counterpoise and have typically prevailed, often trapping program managers in no-win situations that were doomed from the start. For implementation researchers to come along after this and declare programs a failure because of "poor management" or inattention to implementation is to add insult to injury and invite justifiable scorn.

What is needed instead is a useable body of knowledge about how different tools of government action work and how they can be adapted to different purposes. It is this body of knowledge that is the appropriate domain of implementation study. And it is this range of issues on which implementation research can finally cut its theoretical teeth.

FOOTNOTE

1. Peter Drucker, "The Sickness of Government," The Public Interest, No. 14, (Winter 1969), pp. 3-23.

2. For further explication of this point see: Lester M. Salamon, "The Rise of Third-Party Government," The Washington Post, June 29, 1980.

3. Budget of the U.S. Government, Fiscal Year 1981, Special Analyses, p. 254; U.S. Advisory Commission on Intergovernmental Relations, Categorical Grants: Their Role and Design, (Washington, D.C., U.S. Government Printing Office), 1977, p. 25. Interestingly, the 1979 budget marks the first decline in the grant-in-aid share of the budget, and this downward trend is projected to continue. Thus the FY 1982 budget estimates that grant-in-aid will account for only 14 percent of the FY 1982 outlays, compared to a high of 17.3 percent for FY 1978. Budget of the U.S. Government, Fiscal Year 1982, Special Analyses, p. 252.)

4. William Lilley III and James C. Miller III, "The New Social Regulation'," The Public Interest, No. 47, (Spring 1977), pp. 49-51.

5. Budget of the U.S. Government, FY 1981, Special Analysis G, pp. 230-234; U.S. Congress, Joint Economic Committee, Federal Subsidy Programs (1974), p. 5. These estimates reflect orders of magnitude only because of uncertainty over the interactions that exist among various tax provisions.

6. U.S. Commission on Government Procurement, Report, (Washington, D.C.: U.S. Government Printing Office, 1972), pp.73-75.

7. The term "street-level bureaucrat" was used by Michael Lipsky to refer to the service providers who enjoy substantial operational autonomy in the delivery of local police, welfare, educational and other services. See: Michael Lipsky, "Street Level Bureaucracy and the Analysis of Urban Reform," Urban Affairs Quarterly, VI, No.4 (June 1971), pp. 391-409.

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12. One exception, which reviews the accountability problems resulting from increased, public use of the private sector, is: Bruce L.R. Smith, ed., The New Political Economy: The Public Use of the Private Sector, (New York: John Wiley and Sons, 1975).

13. Peat, Marwick, Mitchell & Co., "Loan Insurance and Loan Guarantee Programs: A Comparison of Current Practices and Procedures," in Congressional Budget Office, Loan Guarantees: Current Concerns and Alternatives for Control (1979).

14. U.S. Interagency Council on Accident Compensation and Insurance, "Partial Inventory of Current Federal Accident Compensation and Insurance Initiatives and Programs," mimeo, January 31, 1979.

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17. U.S., Office of Management and Budget, Managing Federal Assistance in the 1980s, p. 31.

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24. Robert A. Levine, Public Planning: Failure and Redirection, (New York: Basic Books, Inc., 1972).

Representative HAMILTON. Thank you, Mr. Salamon.
Mr. Walker.

STATEMENT OF DAVID B. WALKER, ASSISTANT DIRECTOR, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Mr. WALKER. Mr. Chairman and members of the subcommittee, I'll attempt to highlight the statement that I prepared and hopefully not be redundant in terms of the points made by my colleagues about the definitional question. The definitional issue was hammered out in practice, not by theoreticians, in the late 1960's and early 1970's in the process of developing the LEAA, community development, and the CETA legislation.

In effect, what came out of that by way of definition, was that a block grant is an attempt to balance some broad national purpose in a specific functional area with the concomitant and contrasting goal of seeking to maximize recipient governmental discretion.

Now that is oil and vinegar, and I'm not sure there's even a salad to put the thing on. Those are two very different policy and public administration goals.

The defining of a national purpose leads to conditions one way or another. The issue of attempting to maximize State and local discretion means the cutting of conditions one way or another, and the dilemma and the record of the existing block grants, highlights the difficulty of keeping those purposes in balance.

In four of the five block grants from 1966 until now—1966 being the year when our first block grant was created with the merger of some 17 previously separated public health categories into one—from 1966 until now, the record, with the exception of that one grant—and that is a peculiar and interesting grant since it goes in a very different direction from the other four—is that the attempt to maintain the balance between a national purpose in the minds of the Congress and the attempt to keep significant programmatic and specific project and some fiscal managerial discretion for recipients has worked out over the long haul in losing the discretion which initially was conceived of as being appropriate for the recipient jurisdictions.

This is certainly the case of LEAA, which already has been given its last rites. If one looks at the processes envisaged back there in 1969, the first operational year of that program, as against what it looked like during the last 2 or 3 years, it would take a lengthy discussion to highlight the degree to which the program had become heavily caught up with earmarks, additional planning requirements, and in other conditions—sometimes administratively instituted and sometimes at the behest of the Congress.

The same is true of title XX, the social services block grant. The same is true, particularly over the last 3 to 4 years, with both

CETA and the community development block grant. Now this is the issue of politics as much as anything else.

In looking at what is before us by way of the seven proposals of the administration, potentially another eight or so come next January, this definitional issue looms large. In looking at the way in which the House and Senate have responded to the administration's proposals and in contrasting the Senate and House versions certain things come out rather clearly by way of this definitional issue.

At the moment, looking at the array of possibilities before the Congress in terms of what a block grant adds up to, it includes at least two in the House—in the areas of community development and social services—which adhere basically to the special revenue-sharing administration format. There is at least one in the Senate which closely parallels that. In the center, if one views this in terms of a spectrum of ranging conditions, both the Senate and the House educational block grants reflect a much more circumscribed, more traditional in terms of the Congress, approach with regard to the merger there and the conditions attached thereto.

And then you reach the mergers emanating from the House committee chaired by Mr. Dingell, and in these a number of initially proposed-for-merger categoricals were exempted, more conditions are attached, and some are no more than arithmetic aggregations of three to four separate categories with major strings attached.

So when you complete looking at the seven in the Senate and again the six to nine in the House, the term "block grant" at the moment is a meaningless term. It means everything from "put the money on the stump" over to what is no more than a slightly enlarged categorical formula grant.

So the issue of definition is still a big one. In terms of what the record in the late 1960's and early 1970's suggest, a block grant should be an intergovernmental fiscal transfer that covers the bulk of the functional turf in the program area. None of the five I have mentioned, nor do many of those being proposed, do that.

There was and is an array of programs left out of the community development block grant. With CETA, the bulk of the manpower training funds are still outside of the grant. With the partnership for health grant, it began where only two categoricals were left outside of it in 1966. At the present you've got 21 that have been enacted between 1970 and now.

On the question of eligibility, the theory runs—and it has to run that way, since the bulk of the funds pursuant to block grants usually flow pursuant to a formula. The eligibility question is one that has given rise to some of the major tensions, because you've got to be very precise about who is eligible. With the administration's proposals, contrary to the emotional reactions of many, the reassigning of functional responsibility, in fact, has not been much of a departure from the present. If one were to look at the original seven that the administration proposed and if one were to consider the degree of State and local tensions that those proposals have given rise to, one can only conclude that some of this has to do with things like the cuts in money and the cuts in AFDC and medicaid, rather than with the specific design features encompassed by the seven. If one analyzes the seven in terms of who is to be eligible in light of the affected categorical and block grants now in place and who would be eligible in terms of the proposed grants, I find only two of the grants with any significant shifting servicing responsibilities—that is to say the nonentitlement jurisdictions in CDBG and nonprofits who now are the beneficiaries of certain outlays in preventive health, social and community services. These would have to deal for the first time with State governments in a way that they haven't previously. But the basic point is, in terms of the State and local governmental worries about the proposals, there is no fundamental shift in assignments here at all.

The administration has pretty much looked at the present situation and urged that where the bulk of the grants are Federal-State, then you aggregate it to make the States the primary eligibles—no fundamental change here. If the bulk of the grants now go local, as they do under CDBG, then you keep the bulk of eligible recipients still at the local level. And that is pretty much the proposal before the House.

One more point about the future. If one were to look at the enactment of these five block grants, there were three or four factors present. This was true of all five. You had an agreement amongst program professionals that something was wrong, that it was heavily over-categorized. There was much duplication and excessive program specialization.

The generalists, meaning the State and local elected officials, usually were strongly behind whatever was being proposed. This was true with the health block grant, was certainly true in community development, and also was true, to a slightly lesser degree, with regard to social services and the CDBG.

There also was not simply an adding up of the total of authorizations of the categoricals to be merged, but rather an expansion of these, once the new block grant came into being. An enlargement, then, occurred.

Now if one looks at those three factors of past success, I would say that not one of these three applies in terms of the administration's six or the seven. The degree of agreement between and amongst the generalists at the State and local level and among the program professionals is a very doubtful thing on each of these. The question before us is whether the political forces that have emerged to support the new block grant proposals are strong enough to countervail the record that the blocks that we've got in place now were written in, and that record was written in during a period when interest group activity in the Congress was never more rampant.

The question is whether the current block grant approaches and the forces behind them are adequate to resist the kind of interest group capacity to recategorize, to conditionalize, and to mutate, which the current block grants have experienced. Put differently, it is a question of whether the past is still with us or whether the future is very much stronger in terms of a diminution of the kind of interest group politics that has been so prevalent in the recent past.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Walker follows:]

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Prepared Statement of David B. Walker

The term "block grants" has suddenly become almost a household term this year. After years of developing this concept and advocating the benefits of block grants, ACIR is gratified to see this rising popularity. Unfortunately, a great deal of confusion surrounds this popularization of the block grant concept.

I am happy, therefore, to have this opportunity to help clarify what our Commission means by block grants, and how these grants compare with other forms of intergovernmental fiscal transfers, such as categorical grants and revenue sharing. ACIR believes that there is a place in our federal system for all three types of grants, and that conscious choices should be made about which type should be used in each situation. The choice should be based upon the national purposes involved and the locus of political accountability desired. the fiscal, policy, and administrative features of the grant program, then, should serve these basic national purpose and accountability objectives. Varying political judgments and shifting budget circumstances also substantially affect the choice of grant mechanisms.

My purpose in this presentation is not to analyze, in detail, the numerous specific proposals for block grants now pending before Congress. Clearly, a number of these will be enacted, given the positive action on several in both the Senate and House reconcilliation bills. But, how many will be enacted ultimately, and what their essential design features will be, are questions that cannot be answered now. My purpose, then, is to suggest the major factors which should be considered by the Congress in making its political judgments about the type of grant mechanisms most appropriate for achieving varying program, fiscal, and administrative objectives.

A comparison of block grant features in relation to those of categorical grants and revenue sharing will be presented first. Then, some of the common variations on the block grant concept which tend to confuse it with the other two basic types of grants will be probed. And finally, two primary intergovernmental issues arising out of the use of block grants—state channeling, and budget consequences—will be examined briefly.

BLOCK GRANTS COMPARED TO OTHER TYPES OF GRANTS

In the spectrum of the types of grants available for use by the federal government, block grants are near the center of the continuum. Categorical grants, with their highly specific national program purposes and rigid compliance requirements, are at one end. General revenue sharing, with its total lack of program purposes and minimal policy and administrative requirements, is at the other. Since they fall mid-way between these two extremes, block grants reflect important national purposes of a general nature and require compliance with a variety of national policy requirements. But they also allow recipient governments to make most of the decisions about project priorities and the best means of complying with national policies while still meeting state and local objectives most effectively and efficiently and in a manner most accessible to their own constituencies.

These, of course, are the ideal goods of these programs. Actual block grants tend to mix the features of these three basic types. And, that is where most of the confusion about block grants arises. Yet, a focusing on these normative traits can help to clarify the key intergovernmental issues involved in choosing the appropriate type of grant mechanism.

Fundamental Factors of Choice.—Choosing the appropriate grant mechanism should begin with an explicit consideration of the national purposes involved. Revenue sharing programs, for example, are designed to deliver money, not programs. In theory, their objective is to help match the fiscal capacity of the aided governments to their fiscal needs. No program purposes are stated.

At the opposite extreme, categorical grants seek to achieve very specific program results from the subnational levels of government or other providers. The federal government, itself, specifies very specific program objectives and even the means of achieving them in many cases. While formula categorical grants may be used to support state or local programs, project grants are used in a more experimental fashion to demonstrate the feasibility of certain results in many fewer places. Thus, the national purposes reflected in categoricals may range from supporting research and the development of new capacities to govern at the subnational levels, to supporting ongoing but narrowly defined program activities. Quite often, categorical grants have been used as incentives for state and local governments to pursue on their own. Moreover, the continuing tendency to have basically national programs administered by the subnational governments has been another major goal of a number of big categorical grant programs.

Much more general national purposes usually underpin block grants. The enactment of such a grant generally reflects a willingness on the part of the federal government to share in the financing of a broad functional program. Sometimes these are programs of nationwide scope in which the federal government has an interest in supporting at least minimal levels of service throughtout all the states. It might be the national purpose, for example, to support the development of more integrated criminal justice systems, rather than specific judicial, corrections, and policy systems, as was the case with the Safe Streets Act. Another example might be to specify the national purpose that the needy shall be provided with adequate social services, according to their individual needs, rather than that there be a series of individual types of social services which must be sought out separately (as the Title XX program in part seeks to do). Under such block grants, recipients governments would detail the particular types of criminal justice or social services needed in any particular local in order to satisfy the generally stated national purpose. Block grants work best, so they theory goes, when they encompass most, if not all, of the federal aid in the particular functional area. This give maximum latitude for the state and local governments to meet the needs as they actually occur, without artificially determined program rigidities imposed from Washington.

The political ideas on which these diverse formulations of national purpose are based, range widely. The philosophy of revenue sharing, at one end of the spectrum, is that the federal, state and local governments are separate levels of government, entitled to act largely independent of one another in the programmatic sense, and capable of doing so. In short, it reflects a devolutionary philosophy.

On the other hand, the categorical grant philosophy is that the federal government needs to dominate program policy and specify the means of accomplishment, in order to ensure the achievement of national objectives. This is a philosophy of federal superiority and supremacy.

The block grant philosophy is more like one of shared objectives and responsibilites, equal partnership, and mutual trust among the levels of government. In short, it represents a more nearly cooperative concept of federalism. It recognizes the interdependencies among the levels of government, and it works best when each of the levels of government is capable and committed to similar goals in the functional program area addressed by the block grant.

These differences in national purposes and philosophies call for corresponding distinctions among grant recipients. The tendency of categorical programs to specify exactly what is to be done and how, and to promote the creation of specific organizational structures for narrow program purposes, is associated with the practice of providing these grants to specialized units within states or local government or to specialized nongovernmental service providers. The narrow purpose of the program is served directly by this choice of recipients. Political accountability for program results runs directly from the grant recipient to the federal goernment. While certain nods may be made in the direction of citizen participation and the involvement of elected officials, these "outside parties" frequently are involved in a largely pro forma way.

The much greater reliance on the decisionmaking processes of the governments receiving block grants and revenue sharing leads to the conclusion that in most cases these types of grants should be made to general purpose governments—the Governor and legislature at the state level, and the chief executive and governing bodies of county and municipal governments at the local level. The major exception would be block grants to independent school districts (which normally are established apart from city and county governments throughout most of the nation).

Under block grants, the recipient is accountable more or less equally to its own political process and to the federal government. Under revenue sharing, accountability is almost exclusively to the recipient government's own political processes. It is important, therefore, in these two grant mechanisms, that the recipient should have broad decisionmaking power and direct accountability to the people through the election of its own decisionmakers.

These issues, concerning national purpose and the focus of accountability, clearly are the fundamental considerations in chosing among the three basic types of grant mechanisms. Revenue sharing should be used when the federal government is seeking only to share its superior financial base with needy subnational governments in accordance with their fiscal needs, and when the federal government is satisfied that most of the state and local governments receiving these funds will know best what program results to pursue and how to pursue them. Block grants should be used (1) when the federal government's own program priorities are such that it desires to supplement the service levels in certain broad program areas traditionally provided under state and local jurisdiction, (2) when it seeks to establish nationwide minimum levels of service in these areas, (3) when broad national objectives are consistent with state and local program objectives, and/or (4) when the federal government is satisfied that state and local governments know best how to set subordinate priorities and administer the program. Finally, categorical grants should be used when the federal government has very specific national objectives in mind which call for innovative or politically controversial programs at the state and/or local levels which are not likely to be undertaken without highly conditioned federal incentives.

Other Major Features of Grant Programs.—Once the basic decision has been made about which type of grant to use—based upon national purpose and accountability considerations—other features of the grant program should be enacted with that basis choice in mind. This helps to ensure that the basic philsophy of the program will be carried out as intended.

With respect to its financial provisions, revenue sharing should be allocated exclusively on the basis of formulas related to measures of fiscal need. Block grant funds should be allocated by formulas designed to emphasize program needs—with the exception that certain discretionary or related categorical grant funds might be set aside to meet research, recipient training, technical assistance, or unusually acute program needs. Categorical grant funds may be allocated among recipients either by formulas, preferably related to some measure of program need, or on the basis of project application competitions. Even when the funds are allocated by formula, such funds are released only upon approval of specific plans for directly eligible project activities.

Matching funds, contributed by recipient governments in proportion to federal grant amounts, are not required for revenue sharing programs. Tax cuts by recipients and overall reductions in governmental spending are acceptable results in revenue sharing programs, if that determination is made by recipient governments in response to their own political processes.

Matching funds, on the other hand, may be required at modest levels in block grant programs. Alternatively, it is quite common to require in block grants that the past level of spending in the aided program area not be reduced because of the federal supplementation (the so-called "maintenance of effort" requirement).

Matching requirements frequently are a major feature of categorical grant programs. This is a natural outcome of the national purpose in these grants for stimulating new subnational governmental activities. Matching ratios may run anywhere from one dollar of the recipient's funds for each nine dollars of federal money, to two dollars of the recipient's funds for every one dollar of federal financing—depending upon the degree of stimulation desired by Congress and the President.

Application and planning requirements also vary greatly for these three types of grant mechanisms. There are no application or planning requirements for revenue sharing, since eligibility is determined by federal law and there are no program requirements to which recipients must adhere. Organizational and administrative requirements are also minimal in revenue sharing. Any state and almost any county or municipality with even minimal public servicing, reporting and budgeting processes would qualify. Also, very few general policy requirements apply to revenue sharing—the principal one being civil rights protections. The idea here is to minimize the federal administrative effort involved in distributing funds, while at the same time minimizing red tape for the recipient governments.

Categorical grants, again, are at the other extreme. Application, planning, organizational, and administrative requirements are so detailed and specific that the documents submitted by recipients prior to the authorization of federal funds frequently run into the hundreds of pages. The recipient's eligibility and organizational structure must be specifically documented and usually justified each year for each project. The project must be shown to be in accordance with specified types of plans and planning processes, and numerous requirements for reporting, auditing, and other types of administrative activities must be met. In addition, most categorical grants are subject to a broad array of general policy requirements relating to nondiscrimination, protection of the environment, equitable treatment of persons and businesses displaced by grant activities, merit principles for employment on the project, citizen participation, and the use of prevailing wages for construction workers under contract in the project. Categorical grant applications must show, in detail, how each of these requirements will be met. All of the application information must be reviewed and approved by the rulemaking agency before federal funds can flow. Frequently, this is a long and arduous process.

Block grants have simplified application and administrative requirements. Greater reliance is placed upon the recipient governments' own organizational structure and planning processes. Most of the same general policy requirements which apply to categorical grants, also apply to block grants, but recipients frequently may certify and show evidence, only once, that their own political and administrative processes meet these requirements, rather than demonstrating how each requirement is met specifically in each project. Emphasis is placed upon planning documents submitted with the application to show that federal funds will be used in a manner consistent with national program objectives and in a reasonable relationship to demonstrated state and/or local needs, desires, and priorities. Post audits of program results and finances are used to ensure compliance with federal conditions. Overall, though, administrative burdens are much less for block grants than for categoricals and recipients have much more flexibility in meeting their own needs with federal funds.

The major purposes and features of revenue sharing, block grants, and categorical grants—as described above—are briefly summarized in the following table. Although somewhat oversimplified, this table is designed to provide a quick and easy checklist for decisionmakers who must choose appropriate grant mechanisms to match their purposes.

Major Features, Three Basic Types of Federal Grant Programs

Features	Types of Programs: Revenue Sharing	Block Grants	Categorical Grants
Purpose	Delivering money, not programs.	Generalized program objectives in a broad functional area; systematic financial support of all appropriate jurisdictions; most of the relevant Federal aid encompassed in the block.	Very specific program objectives and requirements; developing capabilities and activities lacking or deficient among recipients; demonstrating program innovations.
Political Philosophy	Separate levels of government, largely independent in the programmatic sense. DEVOLUTION	Shared objectives; equal partnership; mutual trust among levels of government. SHARED RESPONSIBILITY	Federal government dominates program policy and specifies means of accomplishment. Often tends toward FEDERAL SUPERIORITY
Recipient	General purpose state and local governments.	Usually general purpose state and local governments, or school districts.	General purpose units or specialized agencies of state or local government, plus non-governmental service providers.
Recipient Accountability	To own political process.	Equally to own political process and to the Federal government.	To the Federal government, first and foremost.
Allocation of Funds	Formula based on recipient fiscal capacity and tax effort.	Formula based on program needs.	Formula based on program needs, or project competition (grantsmanship).
Matching Funds	None required (tax cuts allowed).	None, or few, required. Maintenance of effort often required (supplementation of activity).	Usually required (stimulation of activity).
Application and Planning Requirements	None.	Moderate; emphasis upon recipient's own planning process.	Extensive and detailed; little flexibility available to recipients.
Organizational and Administrative Requirements	Minimal.	Moderate (as compared with categorical grants).	Extensive and detailed.
General policy Conditions (Beyond Program Policies)	Minimal; post audit.	Substantial; process certification.	Substantial; detailed pre-approval.
When to Use	When fiscal concerns are virtually the only ones under consideration.	When supporting traditional or well established programs which exist nationwide and engender little or no political disagreement among governmental levels about the need for such programs.	When supporting innovative and/or politically controversial programs not likely to be undertaken by recipients without Federal incentives; often target to specific population groups.
Principal Advantage to Recipient Government	Extra funds with which to govern own affairs.	Substantial flexibility to meet own as well as national objectives.	Freedom to undertake costly and controversial programs, with the Federal government taking most of the financial or political risks.

TYPES OF PROGRAMS OFTEN CONFUSED WITH BLOCK GRANTS

Block grant programs which have been enacted or proposed frequently do not follow rigorously the design described above. Some variations are only slight, but others diverge widely. For example, some consolidations of categorical programs result only in a somewhat more broadly defined categorical program, such as the Education Amendments of 1976 and the Comprehensive Older Americans Act Amendments of 1978. Even those block grant programs originally enacted with rather broad discretion for recipient decisionmaking frequently are recategorized by legislative amendments which focus them more narrowly or earmark funds within the block for specific purposes. For example, over the years, the community development block grant was more narrowly targeted to distressed neighborhoods; law enforcement assistance acquired special funding set-asides for juvenile justice; and public service jobs were set up as a separate category within the comprehensive employment and training program, with eligibility requirements which became increasingly restrictive.

Another divergence is that many functionally related categorical programs frequently have remained outside the block grant programs. For example, youth employment has remained outside of CETA; special services for the aging have remained outside the social services block grant; many community development programs have remained outside the block grant in that area; and the partnership for health block grant has encompassed only a small part of the aid in that field.

Nevertheless, the five existing block grants—social services, community development, employment and training, law enforcement, and Partnership for Health—share some of the typical block grant features. Save for the Partnership for Health program, all require federal approval of grantee plans and maintenance of grantee fiscal effort. All five require compliance with a wide range of generally applicable national policy requirements—including civil rights, uniform relocation, environmental impact, merit personnel, and prevailing wages for construction workers.

In contrast, a number of major program consolidations proposed by President Nixon in the early 1970's would have omitted these types of conditions. They would have folded 129 categorical programs into six broad programs referred to as special revenue sharing—because of their general lack of federally imposed conditions. The six would have been for education, transportation, urban community development, rural community development, manpower training, and law enforcement. Only the urban community development and manpower proposals passed, but both were transformed by Congress into conditional block grants more like the block grant model described above rather than the revenue sharing model.

This record of past enactments and proposals illustrates the tensions which exist among the three ideal types of grant programs. As a result, a single program often exhibits features most appropriate to more than one of these mechanisms. Congress then should be clear and consistent in designing grant programs so that they can be administered faithfully in accordance with legislative intent.

STATE CHANNELING OF BLOCK GRANTS

Another lesson learned from the experience with existing block grants is that when they are given first to the states, for eventual use by local recipients, the tendency is for them to lose their block grant features before they reach the local level. For example, a large share of the funds passed through to local governments under the law enforcement assistance program were awarded in the form of specific project grants accompanied by additional matching and administrative requirements in the best traditions of the categorical grant mechanism. If Congress, then, desires the ultimate recipients to receive funds under the block grant format, it probably should consider specifying this intent in the law. Otherwise, red tape taken away by the federal program may be added back by the states and program flexibility afforded by the federal program may not affect the localities.

State administration of broad block grants also raises the significant question of who will gain and who will lose benefits under the new program. Unless the beneficiary pattern is clearly specified in the block grant legislation—often not a desirable practice—potential winners and losers will fight it out at the state level to determine how funds will be distributed below the state level. This can be a time consuming and politically difficult process, but it is inherent in the flexibility normally accorded through the block grant mechanism. Some general federal guidelines may be stated in the block grant legislation, and perhaps even a few earmarks for critical eligibility categories may be established, as was the case with LEAA. Yet, too much of this will have the effect of recategorizing the block grant. Congress should carefully consider and clearly state its intent in this regard.

BUDGET CONSEQUENCES OF GRANT TYPES

Categorical grants have tended to support relatively high and increasing levels of public funding for the programs involved. Their very purpose is to stimulate new activity and to require added expenditures by recipient governments (matching funds). Support for these programs usually is high because of the congruence of concerns among the Congress, the bureaucracy, and the program interest groups and beneficiaries.

Block grants would be expected to lead to somewhat less expansion of public spending, since their role is to encourage mininmum standards and supplement well established functions of government, rather than to aggressively stimulate new activities.

Revenue sharing would be expected to have little overall effect on recipient government spending, or perhaps even a dampening effect. This arises from the lack of requirements for either program innovations or matching funds, combined with the acceptability of tax reductions by receiving governments.

Experience with existing block grants and the general revenue sharing program indicates that the federal government is less likely to fund these two types of programs as generously as it does the categorical programs. The national purposes simply are not as direct and compelling in the more generalized programs. Hence, their political support is not as strong.

ACIR has recommended, recently, that the federal government consider taking on full financial responsibility for a number of grant programs now providing direct benefits to needy individuals. In return, the federal government would terminate a large number of grant programs designed to assist state and local governments in programs where these subnational units already provide the bulk of public spending and decisionmaking. This would be a fiscally neutral way of reducing the number of grant programs and making the federal grant system more manageable. The political implications of full federal financial responsibility for income maintenance programs would be akin to those for many categorical grants. Specific national purposes would be at stake, and the congruence of interest among the Congress, the bureaucracies, and the program interests would be felt. Political support at the Federal level, very likely, would be strong.

As budget situations tighten and loosen from time to time, Congress should consider these budget consequences as it restructures the grant system.

CONCLUSION

The Administration's current proposals for restructuring the grant system, although mostly described under the heading of "block grants," really fit the revenue sharing model much more closely than ACIR's model of block grants. Most rely upon public information reports about planned and actual use of funds, biennial audits by the states, no matching or maintenance of effort requirements, and certifications by grant recipients that discrimination will be prohibited in the disbursement of aid funds. These provisions are very similar to those in the existing general revenue sharing program.

The design features of those "block grants" included in the Senate and House omnibus reconciliation bills reflect everything from the "special revenue sharing" approach to the enlarged categorical grant device. Clarity and consistency are not among the hallmarks of these bills, and questions legitimately may be raised regarding the national purposes and pattern of accountability reflected in them. Hopefully, the approaching final phase of the reconciliation process will clarify these crucial questions.

Representative HAMILTON. Thank you, Mr. Walker. Thank you, gentlemen.

I, too, would like to put a philosophical question that is broader, really, than block grants, themselves. Some of you have touched on it. You are all experts in federalism and intergovernmental relationships.

I would like to know is what direction you think we are going, and what direction you think we should go, with regard to this question: The division of State and Federal reponsibilities. That is a fundamental question involved, it seems to me, in the block-grant program. I would just like to get your own views on record here, before we get into some of the details on block grants. It's really a two-part question:

What direction do you think we are going? If you look down the road 5 to 10 years, where is the Congress taking us on this question of State and Federal responsibilities, in your judgment?

And the second part of the question is: Where should we be going?

Mr. WALKER. If I might respond.

Representative HAMILTON. Surely.

Mr. WALKER. I'll begin a response. The question is one to which I could spend 3 hours responding. The ARIC has just finished 11 volumes, in fact, dealing with this very issue.

Representative HAMILTON. Try to cut it down a little.

Mr. WALKER. Two minutes.

In looking at what has transpired over the last 20 years in terms of federalism, the commission concluded the system had become overburdened, overcongested, with a network that was overloaded with no circuit breakers, none at all. And the political aspects of that, I want to get into.

This is reflected in the number of aid programs—580; it is reflected in the high degree of program specificity in which the Congess involved itself during the past decade. It is reflected in an array of conditions, both crosscutting and specifically related to aid programs which the Congress got into largely during the past 12 years.

It is reflected in the shift from the 1 to 50 relationship, the predominant intergovernmental relationship of the 1960's to 1 to 70,000 relationship of the moment, with the Congress and the executive branch of the Federal Government pretending to monitor relationships between the jurisdictions—70,000 being the approximate number of subnational governments, out of 80,000 which are in direct receipt of Federal aid money at the present time. And that says nothing of the conditions which the particular arithmetic relationship subsumes.

The commission's proposal is to decongest—to centralize certain things, decentralize others, devolve totally other program involvements, leaving an ample number of functions in the intergovernmental arena to provide confrontation, conflict, and collaboration.

This means, in terms of income maintenance programs—the several multibillion-dollar-welfare programs—that they should be federalized—and I would add administration as well as funding. This means, with regard to roughly 400 of the 580 grants which the Congress has enacted over the past almost 100 years which amounted to about $8 billion in terms of outlays in 1980—that we get rid of most of them. For symbolic political, and narrow interest group purposes—they are valuable. But little money comes out of those spigots for people. They are very helpful to bureaucrats and to interest groups, and to people running for election and reelection. But in terms of real impact: nil for the most part.

Turning to the big money grants—there are 50-odd, aggregating 80 percent of all aid outlays—these are important, and some of these are subject to the proposed block grants. Some are subject to ACIR's proposals for centraization and some for devolution.

One of the more difficult issues now confronting everyone, particularly State governments, is the cut-and-cap-it approach to devolution. This view holds that the big welfare programs, for the most part, should be left in the lap of State governments—in terms of the ins and outs of eligibility, honing in on waste, fraud, and abuse, et cetera. But the question of the Federal Government's fundamental role here is not forced.

In effect, what has transpired is that 580 programs have been looked at, and a judgment has been made—inferentially or explicitly—that the Federal role here, in each of the 580, is either secondary, tertiary, or nil.

The commission disagrees with that proposition. We believe there are 10 to 12 of these programs wherein the Federal role is 100 percent. And we agree with the administration that in an array of other programs, the Federal role should be zero, leaving an ample secondary and tertiary role in some big, significant program areas.

So, I think this is where we should be going.

Representative HAMILTON. I would like to hear from each of the panelists on this, in the order that you choose.

Mr. Salamon, you look like you're ready to go.

Mr. SALAMON. I will stick my head in the lion's den. It's hard to argue with an 11-volume study; but showing how wholehearted I am, I will proceed to do so. The last time we tried to do this sorting out was in the mid-1950's, when President Eisenhower named a blue ribbon commission that had audited everyone that we could imagine creatively, who had political clout, to sort out this Federal/intergovernmental set of relationships.

The record of that commission, I guess, could be read as not very encourging to future efforts of the same sort. Basically, the conclusion was that two small grant programs—I guess one grant program, one small tax-sharing, telephone tax—could be changed. But basically, when it got down to making the hard decisions about which programs ought to be left to the States, and which ought to be the Federal Government's programs, there weren't very many candidates that could be turned over.

Now, it seems to me that there are a lot of reasons for that, and one could pass it off as simply politics, in some kind of negative sense.

It seems to me, though, that there are some more basic issues involved. I suspect that, had the advisory commission looked 10 years ago at the array of Federal programs and made a decision about which should be Federal and which State and local, they would have come up with a different list than the one they came up with this year. Or, had they done it 2 years ago or 5 years ago, it would have been different still.

In other words, it seems to me that the philosophical basis for that division is by no means clear. And what is more, I guess I am not sure that it is necessary and fruitful. It seems to me that what has evolved is an elaborate—as I pointed out in my prepared statement—an elaborate problem of sharing of authority, not only with State and local governments, but with a whole host of institutions in this society.

I personally think that this is a positive development, in the sense that the Federal Government, in a whole host of areas, had a choice between direct delivery of services, provision of services, and no provision or delivery of services; it shows neither. What it shows instead is a kind of middle course; and characteristic of that middle course is the Federal authority—Federal resources are brought together with the resources of other elements in the society, and there results a kind of unique, and complex, and certainly stressful set of relationships, in which authority is blended and shared, and in which a whole host of partnership developments occur.

And out of that is forged a new approach to solving public problems, an approach that I think has a lot of strengths to it—a lot of strings, but a lot strengths, as well.

So, to summarize, I guess it seems to me that this philosophical goal of sorting out neatly between Federal functions and State and local functions begins with an incorrect premise. The premise is that, in some sense, the Federal Government has moved in, has displaced a whole host of institutions in the society. I don't see the evidence of that.

Rather, what I see, time and again, is that Federal involvement in an area has the effect of increasing the activities of whatever institution is functioning in that area. It is certainly the case in the case of State and local governments. It is certainly the case from my own research on nonprofit organizations. I believe it is the case with regard to hospitals. I believe it is the case with regard to private universities.

In a whole host of areas, it seems to me that the expansion of Federal activity has increased the scope of those other institutions. So, I think the basic premise of this sorting out is wrong, and therefore, I think that the goal of this effort to sort out functions is wrong.

Representative HAMILTON. Mr. Dommel.

Mr. DOMMEL. I agree that sorting out is incorrect. But the environment has changed. In the 1950's, it was not easy. It was easy to dispose of the argument for sorting out because there was always an increment of additional money to be spent. As long as there was additional money to be spent, there was no real impetus for sorting out.

That condition no longer prevails. There is no longer an increment. Once the increment is no longer there—as a matter of fact, we now have the decrement—then what you find is a lowering of the Federal presence in a lot of these policy areas.

I noticed some quite interesting differences in funding between some of the earlier versions of the new block grants, in terms of constant funding for 3 or 4 years for some of the health and social service grants, whereas the educational block grants showed a substantial increment each year. I'm not sure, but what it seemed that in certain areas there was an intended lowering of the Federal presence. The block grants were just a transition to get out of the business. This is, lower the Federal presence in some areas, and proceed through a hidden agenda that says, "we'll turn that revenue source back over to the States and let them do with it what they wish."

With education, and the fact that there was an annual increment proposed in the early bills, the suggestion to me was that this presumed a continued Federal presence was useful in that area.

So, it seems to me that the proposed block grants are not a sorting out,—we will give the money and you make the choices—but they are also not the end of the road. Some of these are really transitional devices for the Federal Government to get out of the business altogether. And it is going to be easier to do so when the money is being cut. To the extent that a social service block grant becomes less and less of the State's spending in that area, removing the Federal presence becomes easier.

Representative HAMILTON. Mr. Dommel, if I may interrupt you, the President has talked in terms of block grants as an intermediate step.

Mr. DOMMEL. Right.

Representative HAMILTON. His eventual goal is what he calls a revenue cutback, or something of that sort.

Do you see that kind of a progression here?

Mr. DOMMEL. I see the hopes of that kind of a progression. My feeling is that when the increment disappears, the possibility of achieving that trajectory is better than if there is added money. In an economy that doesn't grow or is growing slowly, there isn't the added increment necessary for social service spending and welfare spending. Within that context, I think they may just be able to pull some of that off—getting out of the business in some of these areas.

I used to tell my public policy class that if we are not a nation of sudden great leaps forward in public policy, we are also not a nation of sudden great leaps backward. I don't know if I can say that anymore.

Representative HAMILTON. Mr. Barfield.

Mr. BARFIELD. I guess there are two ends of the spectrum. I would disagree less, I guess, with Mr. Dommel than with Mr. Salamon, and would associate myself more with ACIR. It is not a question of theory about the sorting out, because whether the President prevails entirely, or 75 percent, or 80 percent with the budget this next year or the next year.

The political handwriting seems to be for the next couple of years—or for the rest of the decade, possibly—that there are going to be major budget stringencies, so that the sorting out, as Mr. Dommel has just noted, is happening. That is, the budget victories the President has won, and may contine to win, will change the circumstances of the intergovernmental aid system.

And I think, to that degree, I agree with Mr. Dommel.

I also think that, in terms of the past efforts that Lester talked about, you can't just sort of jump back 20 years ago. In the first place, there were fewer categorical programs at that point. It was not just a question of the areas. This kind of mobilization that Lester was talking about—the Federal Government was not into a number of things.

I guess one way of putting it is that I just cannot believe that all of the 600 categorical programs that now exist actually constitute programs that have a true national purpose. Some do; but some do not.

What we have had, as ACIR noted, is an explosion of categoricals. And I disagree with Lester when he said that the Congress made a choice, or that the Federal Government made a choice. I don't think that it did make a choice, it just drifted.

Some of you may have read of or heard of a ground-breaking article that David Stockman wrote in the magazine "Public Interest" in 1975, where he pointed out that of the mid-1970's, the Congress seemed incapable of dealing with large issues. He took as examples national welfare reform and national health insurance. And he called for a new social strategy that would have the Federal Government move to solve large social questions—welfare and health insurance—but get out of the other smaller areas.

And I think that is the kind of thing that, willy-nilly, this administration has set in motion. Any administration, for the next few years, would have been faced with the kind of economic situation that this administration has; maybe not the rhetoric, but the sorting out and the forcing action would have come as a result of just the economic problems. And that is what makes the situation very different, I think, from the 1970's.

And also, Dave Walker noted that it is impolitic for us to talk of some of the other reasons. I think there are the structure of Congress, the proliferation of special interest groups—the inability of the Congress to break through to a large program of reforms—the fact that every particular interest group has a computer behind it, and it knows, to the nth, how much it would win or lose on welfare or national health insurance programs are reasons behind the aid system mess.

Whether or not this President—since Watergate, we have really had a kind of political stasis in the Executive—whether this President, or succeeding Presidents, can break through, I do not know. He certainly has a better chance of breaking through than his immediate predecessors.

Now, where I would disagree with the administration, however, is that the administration has put its foot down on one side and said, "the Federal Government has over-extended, and it ought to get out of some areas." But what it has not done is take a look at those large major social questions—the welfare area and, I would say, health care. They have given no signal that they understand there are major national social questions that still remain to be resolved.

Representative HAMILTON. Congressman Rousselot.

Representative ROUSSELOT. Gentleman, I appreciate your comments.

Mr. Walker, in your prepared statement, you said the Federal Government would terminate a large number of grant programs designed to assist State and local governments, and programs where these subnational units already provide the bulk of public spending and decisionmaking.

Did you give us a hit list of ones that should be terminated, in your study?

Mr. WALKER. Yes.

Representative ROUSSELOT. How many were there?

Mr. WALKER. I don't know the specific number. I can go by area. We have gone through specific programmatic areas and totaled up what the Federal aid in terms of total State-local expenditures outlays were. In criminal justice, for example, there was no more than 7 or 8 percent at any point—from 1968, the beginnings of LEAA, until now—contributed by the aid program.

In terms of primary and secondary education, there was never more than 9 percent in the late 1960's, to typically 6 to 7 percent during the 1970's, in terms of Federal assistance.

One can do this in a number of functional areas, and this we have done. We can provide that for the subcommittee, if you seek it.

Representative ROUSSELOT. Yes. I think that would be helpful, if you could submit at this point your list of programs that you believe should be terminated or which, evidently, have lost their Federal scope.

[The information referred to follows:]

FEDERAL AID PROGRAMS TENTATIVELY IDENTIFIED BY ACIR FOR TERMINATION IN RETURN FOR NATIONALIZATION OF OTHERS: BASED UPON RELATIVELY SMALL FEDERAL SHARE [1]

[In dollars]

Program No.	Program name	Fiscal year 1980	Fiscal year 1981 (estimate)
	CRIMINAL JUSTICE [2]		
	Law enforcement assistance (three programs being phased out)	444,781	127,175
	EDUCATION [3]		
13.478	Federal impact school aid	772,000	450,298
13.571	Local education improvement	197,400	146,400
13.431	Education of children in State institutions	37,657	36,750
15.533	Right to read	35,000	[1] 35,000
13.577	Guidance counseling and testing in elementary and secondary schools	18,000	18,000
13.013	Appalachian child development	10,000	[1] 10,000
45.127	Humanities promotion in elementary and secondary education	4,500	4,500
13.562	Education of gifted youth	6,280	6,280
13.566	Art education in elementary and secondary schools	1,250	3,500
13.400	Adult education	100,000	100,000
10.882	Higher education land grants	11,500	11,500
13.518	Higher education equipment	7,500	[1] 7,500
45.111	Humanities promotion in higher education	5,000	5,500
45.139	......do	4,400	4,400
45.138	......do	2,000	2,250
13.455	Higher education academic facilities	500	[1] 500
13.493	Vocational education, basic grants to States	474,766	562,266
13.495	Vocational education	112,317	124,817
13.494	Consumer and homemaking education	43,497	43,497
13.489	Teacher Corps	30,000	37,500
13.416	Teacher centers inservice training	13,000	14,300
13.500	Environmental education	3,500	[1] 3,500
13.564	Consumer education	3,617	3,617
13.581	Citizen education, cultural	2,000	2,000
13.680	Telecommunication for delivering health, education and social services	1,000	1,000
13.449	Education of handicapped children	804,000	874,000
13.600	Head Start, services	735,000	825,000
13.429	Education of migrant children	249,806	266,112
13.529	Emergency school aid for minority children	5,000	15,000
13.427	Education for handicapped children	147,851	156,761
13.525	Emergency school aid for minorities	118,800	118,800
13.532	Elementary and secondary school minority aid	95,769	97,812
13.495	Civil rights technical assistance for schools, grants	112,317	124,817
13.430	Disadvantaged children education aid	48,508	50,218
13.630	Development disabilities services	50,680	50,681
13.534	Indian education	47,273	69,270

FEDERAL AID PROGRAMS TENTATIVELY IDENTIFIED BY ACIR FOR TERMINATION IN RETURN FOR NATIONALIZATION OF OTHERS: BASED UPON RELATIVELY SMALL FEDERAL SHARE [1]—Continued

[In dollars]

Program No.	Program name	Fiscal year 1980	Fiscal year 1981 (estimate)
13.535	Indian education	12,500	12,500
13.530	Educational TV for minorities	6,450	9,858
13.631	Developmental disabilities	4,757	4,756
13.568	Education for severely handicapped	5,000	5,000
13.560	Regional education for deaf or other handicapped	2,400	4,000
13.452	Handicapped teacher recruitment and information	1,000	1,000
	MEDICAL ASSISTANCE [4]		
13.244	Community health centers	320,000	374,400
13.232	Maternal and child health services	243,800	254,800
13.295	Community mental health centers	256,895	251,360
13.256	Health maintenance organizations	107,000	155,000
13.211	Crippled children services	102,100	105,700
13.268	Disease control	24,532	24,132
13.252	Alcoholism treatment and rehabilitation	60,815	72,090
13.257	Alcohol abuse	54,800	[1] 54,800
13.210	Public Health Service	68,000	[1] 68,000
13.269	Drug abuse	38,000	[1] 38,000
13.887	Medical facilities construction	23,735	[1] 23,735
13.284	Emergency medical services	36,625	26,500
23.004	Appalachian health	26,450	16,950
64.015	Veterans State nursing home care	22,485	27,973
13.259	Mental health, children's services	14,830	[1] 14,830
13.882	Hypertension treatment	20,000	20,000
13.290	Community Care for Alcoholism, Uniform Act	11,119	7,884
13.280	Drug abuse, clinical and service related	3,417	2,496
64.005	State nursing home care for veterans, construction	6,573	13,800
13.254	Drug abuse	3,605	[1] 3,605
64.016	Veterans State hospital	4,598	5,226
13.296	Hemophilia diagnostic treatment centers	3,000	3,000
13.292	Sudden infant death information and counseling	2,802	2,802
13.237	Medical health hospital improvement	1,900	[1] 1,900
13.888	Home health services and training	5,000	[1] 5,000
13.235	Drug abuse community service	142,098	142,098
13.217	Family planning	157,235	165,000
13.275	Drug abuse education	8,320	12,533
13.890	Genetic disease testing and counseling	8,000	8,200
13.899	Alcohol abuse prevention demonstration	6,073	8,255
13.420	Alcohol and drug abuse education	3,000	3,000
	HIGHWAYS [5]		
20.205	Federal aid highways	3,091,900	3,340,100
	Rural and small urban	(772,900)	(776,700)
	Urbanized area	(734,000)	(714,000)
	Bridge construction	(773,000)	(950,000)
	Safety	(340,200)	(470,000)
	Other	(471,800)	(429,400)
	Motor carrier safety	11,600	17,400
	Highway beautification	8,800	6,900
	Territorial highways	6,700	6,600
	Railroad-highway crossings demonstration projects	18,900	43,000
	National scenic and recreational highway	26,600	43,000
	Safer off-system roads	59,400	4,700
	Access highways to lakes	9,700	18,100
	Highway-related safety grants	28,000	28,000
	Highway safety research and development	8,700	9,900
	Overseas highway	25,000	10,300
	Miscellaneous items (approximately 9 programs)	68,700	22,700
23.003	Appalachian highway development	202,953	215,000
23.008	Appalachian access road	25,536	12,000

FEDERAL AID PROGRAMS TENTATIVELY IDENTIFIED BY ACIR FOR TERMINATION IN RETURN FOR NATIONALIZATION OF OTHERS: BASED UPON RELATIVELY SMALL FEDERAL SHARE [1]—Continued

[In dollars]

Program No.	Program name	Fiscal year 1980	Fiscal year 1981 (estimate)
23.017	Appalachian special transportation planning, research, and demonstration	498	600

[1] These programs are among those identified for various reasons as part of several different illustrations of how ACIR's trade-off recommendation might be put into practice. For a full description of these various illustrations, see excerpt entitled "Further Report on Illustrative 'Functional Trade-Offs'" from ACIR docket for the Commission's 73rd meeting, held April 22-23, 1981. A copy of that excerpt is submitted herewith as an appendix to this testimony.

[2] Criminal Justice: (Federal funds are 3.4 percent of all state and local expenditures for police and corrections.)

[3] Education: Except title I program for the disadvantaged. (Federal funds are 10.5 percent of all state and local expenditures for education.)

[4] Medical assistance: Except professional training and administration. (Federal funds are 11.0 percent of all state and local expenditures for health and hospitals.)

[5] Highways: Except Interstate and Primary systems. (Federal funds are 25.0 percent of all state and local expenditures for highways.)

Representative ROUSSELOT. Have any of the rest of you looked specifically where we could stop or reduce the Federal programs because they are no longer filling their functions?

Mr. DOMMEL. I haven't looked at such areas, but I certainly have a question about this kind of aggregation of numbers, where we deal with 9 percent. In some cities, Federal aid to elementary and secondary education can be 15 percent, or 20 to 30 percent of the local education budget.

So, I am not persuaded by an aggregate figure, averaging every jurisdiction across the country and saying it comes out to 4 percent or 5 percent of the spending on that particular functional area.

Representative ROUSSELOT. I don't think we could select it on that basis at all.

Mr. WALKER. No. This is only one way to look at the specifics.

Representative ROUSSELOT. Some day, hopefully, we'll look at Federal social programs and see if they're really accomplishing all of the things they're supposed to perform. I know that congressional review of Federal social programs is unusual, but maybe someday we'll do that.

Mr. BARFIELD. Well, the National Governors Association and the National Conference of State Legislatures have suggested a trade-off of federalization of welfare—that the Federal Government move out substantially in that area, and in law enforcement, education and highways.

Representative ROUSSELOT. In other words, if we federalize welfare and move out of the other.

Mr. BARFIELD. And ECIR is working on trade-off proposals that could more or less equalize the amount of money between the Federal Government and the States.

Representative ROUSSELOT. Well, Mr. Salamon, do you have any areas? Do you just think that everything we're doing is fine?

Mr. SALAMON. I don't have a list of programs.

Representative ROUSSELOT. No, you may want to go other directions.

Mr. SALAMON. No, I think there are programs. I don't have a list in my pocket.

Representative ROUSSELOT. Are you willing to give us your ideas on where we could maybe take a harder look and think about termination?

Mr. SALAMON. Yes.

Representative ROUSSELOT. That would be helpful.

Mr. Dommel, do you want to comment.

Mr. DOMMEL. I don't have a specific list. We don't have the luxury of people to put together 11 volumes.

Representative ROUSSELOT. We are supposed to have the luxury, every time the appropriation comes up, to review whether each program is doing what it is supposed to do. So it might be helpful to have your perspective if you're willing to give it.

Mr. DOMMEL. The perspective would be that whatever the program is doing, or what you would expect it to do, might vary a great deal among different places. In some places the money may be doing exactly what you expect it to do to supplement elementary and secondary education. In other places it's a very small piece of the action.

I think the principal issue is not—and I beat this drum a great deal—to look at every program and say, "This should go; this should be kept," but to ask which jurisdictions should receive certain kinds of money.

I think that the problem is that——

Representative ROUSSELOT. Or are too many people receiving Federal assistance?

Mr. DOMMEL. That is correct. The problem is that we have a system of something for everyone, and block grants are a vehicle for making that kind of distribution. Instead since there is a desire to cut spending, start at what is a very conservative position and say, "Let's save money; let's make this as small as possible a program," and only deliver it to those places who need it.

So I don't see hit lists as program by program but the need for a jurisdictional selecting of who should receive these kinds of aids.

Representative ROUSSELOT. No, "hit list" was my terminology. Perhaps we should call it something else.

Mr. DOMMEL. It's appropriate, but I think it's not by program. It is the jurisdiction that is the real hit list for cutting recipients—cities, counties, et cetera. It is a little more difficult to do at the State level, but there is a need to cut out the places that have the fiscal capacity to support themselves.

Representative ROUSSELOT. Thank you, Mr. Chairman.

Representative HAMILTON. Well, let's talk a little it about your judgment as to the State's capacity to deal with the block grants. That is an item that comes up frequently. I would like to get your general observations about it.

My understanding is that under the block grant proposals that are now pending in the conference committee, the States are prime recipients, they are given a great deal of latitude to deal with it. You've got 50 States out there. Some of you have spent a lot of time looking at the States. What is your judgment about their capacity to deal with this money, in general?

Mr. DOMMEL. I guess I'm an unreconstructed skeptic.

Representative HAMILTON. You mentioned that in your statement. Do you want to expand on that a bit? Does that come as result of a careful analysis of State governments?

Mr. DOMMEL. It comes from reading all that wonderful ACIR literature, that some States do better than other States.

Representative HAMILTON. Why are you a skeptic, Mr. Dommel?

Mr. DOMMEL. I don't know. It is probably just baggage that I have been carrying around for a long time. And that is that I have a feeling that State legislatures are no better—and may be getting worse—at making hard decisions about the use of money. They are no better, and perhaps worse, than the Congress. And I think Congress itself has not been a paradigm of an institution making those kinds of hard choices in the past.

Representative HAMILTON. You mean they're going to be more vulnerable to State interests and State participation?

Mr. DOMMEL. I think one reason they're going to be more vulnerable is because of the interests represented now at the Federal level and these interests are not represented, nor may they ever be representated, in State capitals. The State capital is the place to catch the plane to Washington.

And I have a feeling that, until that organizational structure is established, there is going to be unequal competition among existing groups, as well as new groups.

I think what bothers me is that the block grants and the deregulation that gets attached to it, shrinks the distance between some of them and general revenue sharing. Taken together, they become, in a variety of functional areas, a way of augmenting a lot of different State budget areas.

And in the absence of any kind of maintenance of effort requirement in particular, I feel that they are going to end up in the same kind of fundability as general revenue is going to have; and it's going to be very difficult to find out exactly what that money did, in fact, go for and how groups can compete for that money, because the general revenue sharing has simply become a source of money that has gotten immersed totally into the budgetary process. And I just see the same thing happening to these block grants, that they will not be functionally decided.

Representative HAMILTON. How do the rest of you feel about this point?

Mr. Barfield, do you want to make a point?

Mr. BARFIELD. I have mixed feelings about it. I see nothing particularly wrong with the fact that revenue sharing has gotten all mixed up in the State budget priorities. That is what the Federal Government gave the money to them for in the first place, and whatever the State legislature or whatever the Governor, or whatever the particular constellation of political-social-economic institutions, wants in that particular State, is what you bought with revenue sharing; you should know that.

It certainly will be uneven across the United States. I mean the organization of interest groups is still quite disparate, I think, from Mexico to Maine, or the larger urban States, New York to Iowa or Kansas.

However, I am very skeptical of the line of reasoning with regard to minorities, the hanidcapped, or the elderly no longer having access to the State and local governments. I just think that is not true. There are many States in which the handicapped and the elderly, and most minorities are well organized today.

Obviously, there are some groups—migrant workers or the rural poor—which I think are, across the board, less organized.

But I just read something that Ben Hooks said. Obviously, he is very much opposed to block grants. But he said, "What the hell, we've got about 1,800 chapters across the country. I think we'll do OK."

In the course of a study I've just been doing for AEI, I conversed with a Senate staff person who said:

> Well, one of the reasons we're going to have to take the handicapped out of the block grants is if we put the handicapped in block grants, they'll sweep the field. They'll take money from everybody else because they're so well organized, and particularly handicapped children. The parents of handicapped children are terrifically well organized.

So that you're going to get a mixed pattern, but I don't think it is always a pattern of the bloated capitalist on the one hand vis-a-vis the disenfranchised lower end of the economic spectrum on the other, although that would occur in some cases.

Representative HAMILTON. The fact that you do get a mixed result doesn't bother you at all?

Mr. BARFIELD. It depends on the program you're talking about. Going over many of the categorical programs that we're talking about, no, it does not bother me, because I start with the presumption that many of these are not truly national programs and that there should be some flexibility.

Representative HAMILTON. Do you think that 2, 3, or 5 years down the road after we've passed these block grant programs, we're going to be hearing about scandals of fraud and abuse in State legislatures?

Mr. BARFIELD. Sure. But when have you ever not heard about fraud, abuse, scandal at State levels and the Federal Government?

Representative HAMILTON. You expect those stories. That doesn't bother you, either?

Mr. BARFIELD. Of course it bothers me. I mean everybody is against corruption.

Representative HAMILTON. I wanted to get you on the record on that. [Laughter.]

Mr. BARFIELD. But you know, a little corruption greases the wheels. In some States you'll find more than in others, but it does not bother me to the extent that I would say that that is a reason not to go to block grants.

Representative HAMILTON. How about you, Mr. Salamon and Mr. Walker?

Mr. Walker, you're about to jump down the microphone. You want to get in on that?

Mr. WALKER. Forgive me, Mr. Chairman. It's an issue that I have been thinking about extensively over the last 6 months or more. In terms of the colloguy thus far in response to your question, I feel two kinds of issues have been raised.

You, I think, want a response in terms of: Are they administratively prepared. Yet, the bulk of the dialog has dealt with the equity issue: Can States be fair in the allocation process?

Those are two different things, I believe.

On the first issue, the administrative, the answer is better than many would believe. I go back to the administration's block grants and all the mutations that the Senate and the House have concocted, and I still come out with the bulk of the block grants being in currently Federal-State program areas, wherein the States are already in the picture, as in preventative health and social services.

The administrative apparatus, then, is pretty much in place. The subtleties of what will have to occur in terms of shifting from what I call a categorical style of administering things at the State level to a block grant style will be a problem. But that shift in style is going to have to be developed at the national level, as well as at the State level.

There is another administrative problem there, and that relates to whether it is going to all come into place, October 1, this year, or will there be a phasing in as some of the congressional versions call for so you would have a year to work through the transition. From the administrative side of it, then, it is somewhat problematic. But it will not be half as horrendous as some folks have described it prospectively.

The basic question——

Representative HAMILTON. Let me interrupt you just a moment. You talk to the Governors about this, now, and their mind is pretty consistent, it seems to me. They're all talking about how State governments would modernize, how they've got the professionals in there, and that those of us from Washington tend to judge their administrative capacities on the basis of their performance 10, 15, 20, or 50 years ago.

Mr. WALKER. Right. There is a huge time lag there.

Representative HAMILTON. What about that?

Mr. WALKER. I could regale you with a few facts maybe. Regarding the structure of the executive branches of State government, the reduction in the number of people being elected should be noted.

Over 20 have reorganized their executive branches over the past 20 years. All but four Governors now with a 4-year term, and that is a far cry from what it was in 1960.

The legislatures, as a practical matter, meet annually at the present time, whereas back in 1960, more than three-fifths were meeting biennially. With the staffing of their committees—all legislatures provide year-round staffing of their fiscal committees.

And note the extraordinary transformation over the past 15 years of State judiciaries from their rather bad shape, I might say, of the early 1960's to significantly changed and improved instrumentalities of the criminal justice they are at the present time.

All of that, plus the fiscal changes, must be emphasized, with 40 or 41—technically 40—with an income tax, 46 with a broad-base sales tax, 37 with both. This is a far cry from the 19, as of 1960, having both a broad-base sales and income tax.

So, drawing back from those elements of strength, one can make some statements about the real changes for the better that have occurred in State government since the early 1960's.

Many of us, moreover, still have a memory that is prereapportionment. Yet, we should not ignore the political dimensions of this. With the reapportionment divisions of the high court and the Voting Rights Act of 1966, the political processes of State governments have become infinitely more open as easily accessed.

But the basic point remains, that point being the one Paul raised—can the Feds target better than the States. That is a matter I'll leave ultimately to him, since he is an expert on it. But my own figures indicate that at least 9 to 10 States do as good a targeting job, and have done as good a job for the past 13 years with their most distressed jurisdictions within their province, as the Federal Government has done. So you end up with a mixed picture on the equity issue, on the targeting question, on whether the States are gong to be worse, better, or whatever, vis-a-vis, their poor jurisdictions. My only other point here is that the Federal Government has only targeted marginally. And there are plenty of statistics to back up that statement.

Representative HAMILTON. Mr. Salamon, you haven't commented yet on this question.

Mr. SALAMON. Let me just be very brief.

They have covered, I guess, the central point I wanted to make, and that is that there are really two issues here: One is the issue of administrative capacities. This is the emphasis, the point I tried to make in my prepared statement; and the other is the broader question he calls equity, which I would broaden to include the substantive purposes and the political processes of the States.

And it seems to me that on the first, on the question of administrative capacity, there is an important implication that flows from what Dave said about State involvement in those areas that are going to be affected by block grants.

He made the point that they are all—the States are deeply involved in all those areas, which I think points out the central fact that the difference between categoricals and block grants is not that block grants involve States—and involve States very heavily; the major difference is that in categoricals there is a much more narrowly defined set of purposes for the uses of funds. In block grants, there is a much wider definition of the purposes. But in both, State governments, local governments have a substantial role.

And therefore, the issue ought not to be, I think, determined on the question of administrative capacity or experience with a particular kind of activity. The issue ought to be determined, I think, on the question of the nature of the political process and the nature of the interests that are represented.

And I would argue that there are differences, whether for better or worse, between those constellations of interest represented in any State—the best ones or the worst ones, depending on your values—and those that are represented at the Federal level. They are different, distinct, autonomous, political systems.

And to the extent that both of those set of interests need to be brought to bear in the operation of funds that raised outside of Federal revenues, it seems to me that some kind of partnership is the basic way that we ought to go.

And to the extent that a block grant proposal eliminates the expression of the Federal purpose, the national purpose, to that extent I suppose I would be opposed to it, and not on grounds that I think the States are incompetent, that their administrators are not good or that all of these improvements haven't occurred, but rather on the basis that inevitably there would be differences in the kind of political forces represented in any particular locality, compared to the national locality.

And both of those sets of purposes are legitimate; both of them, in a democratic society, need to be brought to bear; and therefore, the programs are to be structured to allow that.

Representative HAMILTON. Yes. But I take it that each of you has general confidence in the capacities of the State to handle these programs. You really do feel there has been an upgrading of State skills at this point.

Mr. DOMMEL. I think I read it correctly in the newspaper about 2 or 3 weeks ago that in New York the New York Court of Appeals ruled that Federal aid coming into the State had to go through the legislature. Apparently Federal aid going into the State had been allocated out of the executive branch and not by the legislature. I wonder in how many other States that kind of systems occurs, because that has to do a lot with the politics and not the administration.

Representative HAMILTON. Mr. Walker.

Mr. WALKER. This question of State reauthorization of Federal aid moneys coming into the States has been a hot one for at least 6 years, with a decision coming down now from the high court here, upholding a decision of the Supreme Court of Pennsylvania.

Representative HAMILTON. Do you know the name of that case?

Mr. WALKER. It was *Thornburgh* v. *Casey,* 47 L.W. 3585 (1979).

The tendency has been, on the part of legislatures over the past decade, to try to reassert some authority over their alleged control of the purse. In a number of States, the situation that Paul describes has prevailed: Which is to say the expansion of Federal aid has helped State executive branches. The legislatures, in many instances, got caught in the situation of having to match in some programs, but without knowing how much Federal money was coming to the State executive branches.

There are two different strands of legal opinion here. There are some State's attorneys general that have said that the State legislature cannot delegate the authorizing authority. In other States, interim committees of the legislature have been permitted to authorize receipt of Federal funds.

In short, it's a mixed picture, across the 50 States, though 38 now exercise some degree of appropriations control during their legislative sessions' budgetary process.

Representative HAMILTON. Let me interrupt you a moment, Mr. Walker.

Under the block grant proposals here in the House and the Senate there is no requirement, is there, for reauthorizaion by the States?

Mr. WALKER. There is no requirement. But the assumption——

Representative HAMILTON. The States could do it is that right?

Mr. WALKER. The assumption would be that the State legislature could.

Mr. BARFIELD. The administration is trying, as I understand, to stay neutral on that question, arguing that past administrations have gone along with Congress to tilt the direction of the executive.

I think this administration is very cognizant of the problems that down the road it creates if you do not involve the State legislatures with the program.

Representative HAMILTON. Do you gentlemen feel that State legislative action would be desirable?

Mr. WALKER. Emphatically so, because the problems are interrelated.

Mr. DOMMEL. One might argue that State legislatures are the weakest link in the allocation process. I think if I read people correctly, they worry more about the action of State legislatures on this block grant issue than they do about State executives.

Mr. WALKER. That is true.

Mr. DOMMEL. If you have a situation of inexperienced States who are not used to doing this, and you don't know the committee structure in those State legislative bodies, there are a lot of things that can happen that are vastly different than when executive control was there.

Representative HAMILTON. What are we going to run into with regard to the State-local conflict under these block grant proposals—the distrust, really, that exists in some areas between mayors and city councils and Governors and the like? Is that a formidable problem, one we ought to concern ourselves with? Or should we just say, "You fellows work it out?"

Mr. DOMMEL. I think the point has been overstated, because a lot of these grants have gone to the States anyhow. I think the biggest area of contention, so that it almost becomes the lightning rod to the whole issue, is the education block grant and the intention to direct title I money to States. I think this is a singularly poor idea. One of the assumptions of a block grant is that it immerses decisions in the political setting of the people who are going to spend money. I think an education block grant of $4 billion to the States is inappropriate.

Representative HAMILTON. There was one other problem I wanted to bring up, and I guess it really relates to the kind of experience we have had thus far with several block grant programs that have been in existence since the problem of "creeping categorization" began.

I think, Mr. Walker, you refer to that.

Mr. Barfield, perhaps you did, also.

And as I understand that, under a block grant program, as it goes on, you get the earmarking of assistance categories and the like. Could you comment on that? Do you see that as a real problem down the road under this approach?

Mr. WALKER. It is always present, Mr. Chairman.

Representative HAMILTON. Has that been a consistent pattern under the block grant programs that we have had?

Mr. WALKER. The only place it was not apparent was in the partnership for health program, the first of the block grants, which was supposed to have been the prime vehicle for achieving Federal purposes in the public health area.

Yet, within the space of 4 years, several new categoricals were enacted. It did not subsume them, as they well could have been. So this health block grant did not become recategorized; it became, if you will, special revenue sharing in practice. But because it did not reflect prime national purposes, it also was the candidate, on two occasions, for being eliminated or merged with some larger affair.

And the amount of money that the Congress has been willing to allocated for that particular program never kept up with the pace of inflation. Instead, the Congress focused on the area of public health from roughly 1970 until now, through a range of new categoricals. This, I think, is the exception to the generalization I made before—the basic recategorizing generalization being based upon LEAA, Community Development, and CETA, and sometimes legitimately so, on the basis of initial practices in these programs.

In addition to this, however, are those conditions relating to nearly all grant programs. These, the Congress enacted in an incremental way, some would say mindlessly, over the past 15 years. Thus, a series of cross-cutting conditions come into being—a total of 37 substantive requirements and 23 procedural ones which covered almost all forms of Federal aid, including block grants. These included such things as equal access, equal opportunity, historic preservation, relocation, environmental impact statements, Davis-Bacon, et cetera, et cetera, to the tune of 37, which apply for the most part to all of the block grants, making them, in effect, not the "few strings" programs—to use the earlier shorthand way of describing a block grant—but increasingly conditionalized grants. An average community development block grant recipient, for example, would have to certify in the process of receiving its grant, that it was in conformance with regard to 8 to 10 fundamental requirements that did not directly relate to the implementation of the program itself.

Now, these national cross-cutting social environmental policies have not been examined by the Congress for their effect on recipient jurisdictions. New York has done this for its own jurisdiction and certain individual jurisdictions around here, like Fairfax County, have done this. But the cumulative effect of these 60 odd, in terms of their money, manpower, and overhead costs, implications have not been probed. And this in no sense is meant necessarily to denigrate any of the requirements. Yet, these conditions have had the effect of converting what began as a balancing act between a national programmatic purpose and a maximizing of State-local discretion into a situation where the national purpose goal became heavily overweighted compared to the State and local discretion objective.

Mr. Barfield. It seems to me that once Congress has made up its mind about what kind of grants or block grants it wants to pass, the key to success is not related so much to the internal administration—though I think that would be important to the political process of the State—but to the happenstance politics at the top that will produce a benign succeeding set of Federal administrations, which rein in executive agencies in their inevitable attempt to second-guess State and local governments; but also to patience on the part of Congress not to, in the next year or two, recategorize the program. That has been the problem over the years past.

Representative Hamilton. Congressman Richmond.

Representative Richmond. Thank you, Mr. Chairman.

I don't want to duplicate all of the testimony given.

Can I infer from the testimony that we've had from you four gentlemen that, by and large, you don't really favor block grants as the best means of distributing Federal Government funds?

Mr. BARFIELD. It depends.

Representative RICHMOND. Can we just say in general perhaps there are other ways that would be a little more effective than using the block grant method? Or is there any unanimity on my statement at all?

Mr. WALKER. No unanimity.

Representative RICHMOND. I got the feeling from Mr. Salamon, Mr. Dommel, and from you, Mr. Barfield, that block grants aren't so useful. You recommended——

Mr. BARFIELD. The block grants administration has proposed—yes, I would favor them.

Representative RICHMOND. Now, wait a minute. You recommended delaying them for 2 years.

Mr. BARFIELD. I said there are problems of transition. I do think that you ought to give the States more time to phase in those areas.

Representative RICHMOND. But you know the block grant—the administration wants the block grants immediately.

Mr. BARFIELD. What I would see happening is, in the block grant legislation you provide for phasing in over the next couple of years, if you get Congress to do that. But it is going to be October 1, with everybody starting——

Representative RICHMOND. Certainly Mr. Dommel or Mr. Salamon don't seem to go with the theory of block grants.

Mr. SALAMON. It depends upon what you mean by "block grants" as a definition. I firmly favor decategorization; if that is the meaning, I am 100 percent for it.

If what is meant by block grants a set of proposals that came up to the Hill earlier this year, no, I am not in favor of that. That seems, to me, to undercut too thoroughly the role of Federal Government in setting purposes for programs.

So, depending how you define block grants will determine whether I am for them or against them.

Representative RICHMOND. My personal feeling is that we members of Congress are responsible for taxing the American people. We're also responsible for appropriating moneys. If we're going to be responsible for appropriating moneys, we should also be responsible for overseeing that money, design the programs, checking the programs.

And each and every member of Congress has the responsibility in his own district to do a certain amount of oversight on Federal programs in his district. I make a point every Friday morning to look at Federal programs in my district.

Now, the more you give out the block grants, the less responsibility Congress has. So on one side you have Congress giving away the people's money to other recipients, like the Governor of Texas and the government of Mississippi.

And you know, certainly, that the Governor of Texas and the government of Mississippi really aren't interested in helping the poor people in those two States. They'll do everything possible to take those block grants for health, for nutrition education, or what have you, and to convert them to their own purposes, such as Governors' mansions and convention centers.

And that is what bothers me about block grants. Congress has the responsibility of appropriating the money, then we have to depend upon insensitive governors to give out that money for the purpose that Congress originally wanted the money.

And you know very well there is no accountability with the states and the Federal Government. By the time we get an accounting from the State, we enter our next year. What are we supposed to do, slap them on the wrist or something?

I think we are in a field that is terribly dangerous. I think it is wrong. And I would hope that when some of these block grants are actually examined on the floor, each member will realize that it is his own responsibility to supervise his own block grants in his own congressional district.

And when a member announces a block grant, there's a lot more—better chance that member is going to keep his eye on that block grant.

Do you have any fast response to that? I don't want to take too much time.

Mr. SALAMON. Just one thing, the distinction that Mr. Barfield made between special revenue sharing and block grants which Congress originated in the early 1970's, I think, needs to be restored. Block grants were different from special revenue sharing. They were different in precisely the words and concerns that you have expressed.

And it seems to me that those who originated the concept of block grants, as distinguished from special revenue sharing, should reclaim that territory as their own, because it really did deal with the decategorization goal, without going as far in the surrender of legitimate Federal concerns as these proposals do.

Mr. WALKER. If I might add, Mr. Chairman and Congressman Richmond, implicit in your statement, Mr. Richmond, is that the Congress presently has control over what it is doing. I would deny that.

Representative RICHMOND. Let's say the individual Members of Congress have as much control as they want.

Mr. Walker, wait. I can tell you that any individual member of Congress that is interested in watching how Federal funds are spent in his district has an enormous amount of control over the program. I do. As I said, every single Friday morning, I look at a couple of Federal programs in my district. And as a result, I've got a great deal of input. If I see something I don't like, I come back to the office on Monday and I change it.

So, if a Congressman wants to take an interest in his Federal programs, he can take all the interest he wants. Once he gets into a block grant though, we are one step removed from the actual program, and I think it is wrong.

Mr. WALKER. My only response would be—and I don't know all of the configurations of your New York district——

Representative RICHMOND. I represent a very poor district in Brooklyn.

Mr. WALKER. I would say, of the 580 grants available now, there's upward of at least 225 local jurisdictions of your district would be eligible for, potentially. And I would argue strenuously that it would be impossible for any Congressman, even one as as energetic as you clearly are, to cope with anything close to that number.

Mr. BARFIELD. And without in any sense being disrespectful, I think there is better use of your time than tracking 225 categorical programs. I think that getting to the kind of detail that you have to get into when Congress has so much subcategorized and subspecialized these programs, is nonproductive.

Representative RICHMOND. All right. Then just tell me how you want to keep the Governors of Texas and Mississippi and similar States from circumventing the desire of the Congress?

Mr. BARFIELD. I would like to lower the level of rhetoric here. I am no less trustful of the government of Mississippi or Alabama, Texas or any of them—or if you want to denigrate some of the other States—than of the Congress.

Representative RICHMOND. No. As an individual Congressman, I think there is a very distinct——

Mr. BARFIELD. I think these invidious distinctions don't really help.

Representative RICHMOND. But there are invidious distinctions. Do you know the record of Mississippi for welfare, Mr. Barfield?

Mr. BARFIELD. I think the Governor of Mississippi has no less concern for his poor than——

Representative RICHMOND. Tell me, Mr. Barfield, the second richest State in the Union is Texas, per capita. Do you know what they give on welfare for one woman and three dependent children in the State of Texas? $140 a month.

How would you like to live on $140 a month like a mother and three children in the second richest State in the Union?

Mr. BARFIELD. We could argue back and forth, but I don't think the kind of judgment you are making between nationally elected officials and local officials will hold.

Mr. DOMMEL. To me, the question is not whether you can check on them, Congressman, but can any Federal official check on them? And from what I see in these so-called block grants—which, in fact, are special revenue sharing—there is no accountability in the application process or a meaningful audit process.

So, it is not a question of whether you or the Congressman from the next district or the Governor or anybody else, can check. It's a matter of the absence of Federal oversight so somebody, somewhere along the line can say "no".

Mr. SALAMON. Just one other point, the number of category grants are bandied about, and there it does appear to be impossible, but there is a lot of concentration in those grants. I think the latest figures that 80 percent—I pointed out in my prepared statement that 80 percent of all the grant funds flow through 25 grants. It is possible to keep tabs on 25 grants? It would be nice to keep tabs on all of them; but in limited time, it is possible to keep tabs on the majority of the funds flowing to one's district.

Representative RICHMOND. Thank you very much.

Representative HAMILTON. Certainly.

Do you have any comments you want to make, Mr. Walker?

Mr. WALKER. No. I think I'd better be silent.

Representative HAMILTON. One of the things you have not commented on specifically is the problem of administrative cost. One of the objections raised in our discussion of these administrative costs is that you are actually going to increase them rather than decrease them by going to block grants. I would like to get you on record on that, if you would.

How do you assess the problem of administrative costs under the block grants?

Mr. WALKER. There is theory, and there are smidgeons of practice here. The theory, as it has emerged from the past, is that the Federal administrative costs, relative to block grants is supposed to be small. That is the theory. It doesn't always work out that way, as you know. For example Federal administrative cost in LEAA got rather heavy in its earlier and mid-years.

The generalizations with regard to theory and practice here differ greatly from one another. There seems to be few doubts that block grants will increase recipient administrative costs—sometimes greater, sometimes lesser. It largely depends upon the degree to which the recipient State and/or local government was involved earlier in related categoricals.

If in CDBG you were to go back to the transition years—1974 to 1975—in terms of the jurisdictions that happened to partake of a couple or three or four of the categories that were merged into the block grant, then the added administrative costs for such a jurisdiction, once the CDBG became operational—were minimal. In some circumstances, you might even have had a slight reduction.

If a jurisdiction came in fresh not having participated in any of the old HUD categoricals, they probably experienced some rise in administrative costs, because they had no or few units involved in that program area at all.

There are no really decent figures here—at least that I know of, and I would defer to my colleagues here.

Mr. SALAMON. Let me just make two comments. I just wanted to set the administrative cost issue in context.

I guess my basic conclusion is that one ought not to adopt block grants on the grounds of any administrative cost savings. It seems to me to be a bogus argument.

Mr. WALKER. That's right.

Mr. SALAMON. I think we would all agree on that.

Representative HAMILTON. Everybody nodding affirmatively. That is the first time it has happened all afternoon, so it must be right.

OK. Go ahead.

Mr. SALAMON. When I last looked at the figures, the total administrative cost the Federal—the total cost of running the Federal Government came to something like 11 percent of the total budget; that is, the total outlays. When I was in OMB recently, had responsibility for a segment of the reorganization program, we were constantly required, as part of the reorganization planning, to come up with estimates of the economy achieved through reorganization.

We worked vigorously on that, and indeed, we built into one of our proposals three block grants. In the form of decategorization, consolidations of three sets of programs: Economic development grants; economic development loans; and development planning assistance—a total of 25 to 30 programs, and we were going to roll it into three.

At the same time, we were going to consolidate Federal agencies. We worked vigorously at this, and calculated that we could save 10 percent of the administrative cost to the Federal Government, by making these moves—both the consolidations and the reorganization changes. Then we, unfortunately, took one further step and said:

What does that saving represent, as a percentage of the total cost to the Federal Government in these programs, including the progammatic dollars, and not simply the administrative dollars?

And we came up with the conclusion that we would save four-tenths of 1 percent of the total cost of these programs, with all of this effort. And we, I must say, squeezed and strained to come up that high.

The point is that there simply are not a lot of savings in this area.

Mr. BARFIELD. I think the answer to the recent GAO study, which I cited in my prepared statement, which says the Federal Government should, but does not, know the cost of administering its assistance programs. And I think that study points out the problem is merely definitional.

Lester Salamon—I'm sure they took as accurate a cut as they could at what administrative costs were, but it is very difficult, really, to pin down what is an administrative cost, vis-a-vis what are other kinds of costs.

Representative RICHMOND. Except that it seems that you unanimously feel that block grants would not cut down on administrative costs.

Mr. BARFIELD. I don't know. I would say—I would be skeptical. Certainly, of the administration, I am told, has backed off from 25 percent.

Representative HAMILTON. Gentlemen, we have a vote pending. What I would like to do is to recess the subcommittee for a few minutes while we go vote.

There are a few more questions. I'll come back and try to wrap it up rather quickly.

The subcommittee will stand in recess, then, while we vote.

[A short recess was taken.]

Representative HAMILTON. The subcommittee will resume its hearing, and I'll try to be brief here.

We have not mentioned—at least, I have not mentioned—the fact that we not only have block grant proposals, but proposals that also call for substantial cuts in funding. I would like for you to comment on what you think the impact of that would be—roughly, a 25-percent cut across the board.

We have had a staff study by the JDC, which shows that many local governments are suffering from a great deal of fiscal stress, even without these cuts coming along. So, what kind of an impact do you think those cuts are going to have, given the context of the block grants?

Mr. SALAMON. I'll venture in. No one else seems willing to. I am going to venture in with a slightly different point, though.

We just completed an analysis at the Urban Institute, examining the impact of the cuts, not so much on governments, but on another set of the actors, the recipients of these grants, and even the nonprofit sector. We concluded: that they are quite severe; that this total sector—which has been in a sense not observed, or not analyzed very carefully—stands to lose a tremendous amount of revenue as a consequence of these cuts; and that in order for them to make up that revenue from private sources—which seems to be the suggestion coming from the administration—it would require an increase in private giving of approximately 140 percent over the next 5 years, compared to an increase over the past 5 years of about 38 percent.

So, this is going to involve a tremendous challenge to the whole nonprofit sector of society. It flows directly from the block grant proposals and from the budget cuts that are associated with them.

Mr. DOMMEL. I would like to pick up one point that Les made. First, it is difficult to imagine that there won't be a drop in real services. The State as well as the Federal Government are cutting back on spending—fiscal retrenchment. With losses in State expenditures and revenues, combined with the Federal cuts, it is hard to imagine that real dollars won't suffer substantial losses. This is what makes the whole thing such an area of contention, because there are so many people who are going to be competing for a smaller pie.

The nonprofit side is interesting. Some of the nonprofit sector had been monetized by Federal aid policy. Some people who had done volunteer service before came onto the payroll; this may be particularly the case with the public service employment program in cities which reallocated some of their money to community-based organizations.

Some of the volunteer sector that had been there was monetized with Federal aid. It may be interesting to see what happens to what had formerly been volunteer work; whether they will return to volunteer status and provide services, or whether they are simply going to become part of the loss of services.

Mr. WALKER. Another point, Mr. Chairman, in response to the question, is that the generalization that services will be cut doesn't necessarily follow uniformly across the 50 State jurisdictions and the localities within them.

It depends in large part upon the condition of the regional economies that they are part of, and the degree to which they have corseted themselves—which some 18 States having instituted lids on their expenditures or revenues. Most of this is characteristic of States west of the Mississippi.

There are some States, however, in all of this that are in very good financial shape, very good. The State of Alaska is in a State of fiscal nirvana, and will be for the next 20 years, at least; and the worry of local services in Alaska shouldn't worry anyone. They probably could fund block grants to the rest of the cities in the Nation, easily.

Part of that prospective surplus that they'll be experiencing ——

Representative HAMILTON. Basically, these States are the Sun Belt States, right?

Mr. WALKER. Largely; not all, but largely. The Southeast is facing some fiscal difficulties that they have not had, I believe, because a number of things down there will make them to some degree, and some of the central cities look more like northeastern—not only northeastern, but Great Lakes cities are in as bad a shape as some would believe.

There are some exceptions to that generalization, but basically we're talking about Sun Belt States and the local financial strengths in these areas, and some being in better shape than others. So it isn't totally a uniform pattern.

And one could ask whether the functions being performed are appropriate ones to be performed by Government at all which, in fact, is the discussion that Paul was getting into, in terms of the nonprofit and the volunteer sectors, part of the advent of Federal aid for certain hitherto-handled-by-the-voluneer-sector functions.

Mr. BARFIELD. I guess I can't answer that without going to another level. And that is, I think there are going to be cuts in services.

The larger question is, to what purpose or to what ends? One does not have to buy the entire Reagan economic program to say that we cannot continue to have the kind of deficits that we've been having. There's going to have to be some kind of reining in, whether it is Carter or whether it is Reagan.

The first years, the first half of the decade of the 1980's, are going to be a time of stringency. There are going to be cuts anyway, and if you do not get some control on inflation, you would be arguing over an ever smaller real pie in the late 1980's.

But then it comes to questions of whether you agree with—or the extent to which you agree or disagree with—the larger economic goals.

Representative HAMILTON. Well, gentlemen, I think that pretty well covers it, as far as I am concerned.

I really do want to express my appreciation to you.

Your prepared statements are just excellent. They are good analysis, with very instructive suggestions. They will be very helpful, and I am deeply appreciative to you for them. I know the members of the committee and the Congress will be appreciative, as well.

So let me express my gratitude to you for not only your participation this afternoon, but for your prepared statements, which I think are of very high quality.

If there are no further comments that anyone wishes to make, the subcommittee stands recessed.

[Whereupon, at 3:45 p.m., the subcommittee recessed, to reconvene at 1:30 p.m., Wednesday, July 22, 1981.]

[The following information was subsequently supplied for the record:]

STATEMENT OF GEORGE F. BREAK, PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA, BERKELEY

Block grants fall in the middle of the federal aid spectrum, between categoricals at the one end and general revenue sharing at the other, and they derive much of their economic justification from their ability to combine the strengths, and to avoid some of the weaknesses, of those other two forms of federal aid.

Categorical, matching grants are called for when state and local spending programs generate benefits beyond the boundaries of the jurisdictions operating them. Federal financial aid and federal participation in the management of the activities in question is then justified by the presence of a significant national interest in the programs. Categorical grants, however, often grow up on an ad hoc basis with little or no attention to the existence of other, related programs. The result is then an excessive number of separate grant allocations, each with its own rules and regulations, operated at unnecessarily high administrative and compliance costs. Consolidation of these categoricals into a block grant could reduce these costs and would be justified economically if the national interests being served did not differ significantly among the different functional areas being consolidated. Management of the programs could either be continued on a joint federal-state-local basis or decentralized to the state or local level. The latter alternative is seen by many to be one of the major advantages of block grants.

Unrestricted federal grants are called for if state and local governmental revenue raising powers are perceived to be inadequate. A national goal then exists to strengthen those powers, especially in jurisdictions with unusually high fiscal needs relative to their fiscal capacities. Unfortunately, however, it is very difficult to measure such needs and capacities objectively and hence to derive a non-controversial allocation formula for the funds in question. The legislative history of the adoption of general revenue sharing illustrates this point nicely. Since there is no single, superior allocation formula, there is much to be said for the use of a number of different ones utilizing different measures of fiscal need and capacity. It is here that block grants could have an important role to play. Allocated with few strings to broad program areas, the monies would permit many recipients to shift some of their own funds out of the aided areas into those with higher state-local priorities. In such cases block grants are economically equivalent to general revenue sharing grants, though with different allocation formulas. While purists may not applaud such a solution, it does have some important practical advantages. Some of the block grant monies will be used to expand the aided program areas, thus serving national interests in those activities, and some will be diverted to higher state and local priorities, thus serving the national interest in the strengthening of state-local fiscal capacities.

The economic case against federal block grants rests in part on the superiority of alternative grant instruments and in part on the virtues of state-local independence. If the national interest in each of a number of related state-local programs differs significantly, a set of separate categoricals is called for. If wide agreement could eventually be obtainable on the design of an allocation formula for general revenue sharing grants, that program should be expanded and the use of broad, fungible block grant funds minimized. How far that expansion should be carried depends critically on how inadequate state-local revenue raising powers are perceived to be. An alternative policy, and the only one that guarantees a minimum of federal interference in state-local affairs, would be a continued reduction in federal tax burdens that would make it easier for state and local governments to raise their own funds and to spend them in their own ways.

ADVISORY
COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

Further Report on Illustrative "Functional Trade-Offs"

At its January 1981 meeting, the Commission directed the staff to give high priority to its activities for following up on the implementation of recommendations in the federal role report concerning the simplification and reform of the federal grant system. In essence, the Commission has recommended that the total number of separate grant programs should be reduced by at least half, using a combination of means. In addition to grant consolidation, which the Commission has favored ever since 1967, the Commission recommended in 1980 that all existing federal grant programs be reevaluated to determine which should become the full responsibility of the federal government, which should be left to the states and local governments alone, and which should remain shared programs. Among those programs remaining in the grant system (shared responsibilities), some might maintain direct relationships between the federal government and both state and local governments, while others might have federal-state relationships, federal-local relationships, or federal-state relationships in which the states have a further relationship with local governments to whom they pass a portion of the federal grant funds received initially by the states. This last relationship is widely referred to as state channeling.

A high degree of concensus has developed among the associations of state and local governments and within the federal establishment concerning the need to reduce the number of separate grant programs very substantially, and give state and local government recipients greater flexibility in determining the precise spending priorities appropriate to meeting their own needs within the bounds of broad national goals and objectives. This concensus has been considerably heightened by the present condition of the economy and President Reagan's program for economic recovery.

This memorandum summarizes several proposals which have been made for sorting out responsibilities among the levels of government in the grant system, evaluates the effects upon the grant system which would result from enactment of the President's economic recovery program, and assesses the intergovernmental consultation process in relation to these proposals.

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Proposals for Sorting Out the Grant System

Despite the fact that the federal government currently extends its programs and influence into almost every sector of the nation's domestic activities, the federal role in domestic affairs is theoretically relatively limited. The bulk of domestic programs originally were reserved to the state and local governments. As the constitutional, financial, and political restraints on the federal government's role in these affairs broke down over the past fifty years, federal grant programs expanded in number and types of activity. This has resulted in a federal aid system with a number of problems which may be summarized as follows:

- The present federal aid system is too complex to operate effectively or efficiently; it is bound-up in confusion and red tape.

- There are too many gaps as well as overlaps among the approximately 500 federal grant programs; funds are not targeted effectively by need; program benefits vary greatly from state to state causing geographic tugs and pulls which are not necessarily desirable; and the programs are open to the criticism that they lack nationwide equity.

- The costs of many federal aid programs are escalating rapidly and to such an extent that they fuel inflation and overburden the federal taxpayer; at the same time, many states cannot keep up with the matching funds required.

- Federal programs affect nearly every field of domestic public policy, and preempt much of the policy discretion otherwise available to state and local governments; and state and local governments lose fiscal control along with their policy discretion.

The Commission believes that these problems can be ameliorated -- and that the federal system can be restored to greater accountability, equity, effectiveness, and efficiency -- by reducing the number of grant programs, the number of functional fields in which they are available, and the detailed nature of many of the accompanying federal regulations. This can be accomplished by nationalizing some programs, devolving others to the state and local governments, and by retaining and consolidating others. Any program assigned to a single level of government (or to a reduced number of levels) would be likely to have improved political accountability and administrative efficiency and effectiveness.

To achieve this result, federal involvement in most domestic affairs should rest upon consideration of three criteria: (1) a clear and essential federal purpose, (2) a program history in which federal initiatives and involvement have been heavy or predominant, and (3) heavy federal financing relative to the amounts provided by the state and local governments. If a program fails two or three of these

~~those~~ tests, it should most likely remain at or be transfered back to the state and local levels of government. Borderline cases are the prime candidates for continued federal aid funding and shared responsibility. Programs unquestionably meeting all three tests should be considered for nationalization. Nevertheless, these criteria provide only general guidelines, not hard and fast rules which can be applied deterministically.

Each of these three criteria is examined below.

- Federal Purpose. Undoubtedly, the federal government should perform roles assigned to it by the Constitution. In the main, these derive from the interstate commerce power and authority over the monetary system. The assignment of these powers to the federal government recognizes the advantages of large scale nationwide markets and free access to them. It is only a small leap from these enumerated powers to recognition of the federal government's overall responsibility for the economy. In critical cases, at least, the widening circles from this federal purpose expand outward to include the wise management of critical national resources such as agriculture, forestry, and (most recently) energy.

  With respect to the need for large scale efforts, the federal government seems to have a legitimate role in many types of research -- such as the fields of disease control, medical treatments, oceanography, air and space, environmental protection, public policy analysis, and public management processes. While such activities can command only a small percentage of the federal budget, that percentage yields a considerable quantity of cash which can be concentrated upon manageable topics. In contrast, a similar proportion of the budgets of individual states and local governments would not yield useable amounts of funds unless they could be pooled in some way -- a very difficult task.

  Other federal purposes justifying national action in domestic affairs include equity of treatment among individuals (growing out of the Bill of Rights and "equal protection of the laws" provisions in the Constitution) and the promotion of harmony among the states (an idea manifested, for example, in the Constitution's provision for Congress to authorize interstate compacts). National mobility of populations and businesses, plus welfare benefits and environmental regulations which vary greatly from state to state, for example, can cause artificial dislocations, destructive competition among the states, and unequal treatment of individuals and families. The federal government's Constitutional provisions on the general welfare have been applied to these functions, but not always with clear intent or adequate amelioration of adverse conditions.

- <u>History of Programs</u>. As public programs have developed, the various levels of government have played different roles in initiating, performing, and regulating needed activities. Treaty obligations (as with the Indians) and moral obligations (as with military veterans and immigrants) create special federal interests in some activities and clienteles. In other cases, the federal involvement may be more distant -- limited largely to providing simple financial assistance to state and local governments in their own well established programs. Each program tends to have a somewhat different history from every other one, and the federal role is more or less crucial from program to program.

- <u>The Relative Amount of Federal Financing</u>. The relative amount of federal financing in a given program is closely associated with that program's history. Traditional programs of state and local governments now receiving a smattering of federal aid are greatly different from newer, less familiar programs established by federal initiative and financed largely with federal funds. Of course, there are many programs between these two extremes. Simply on pragmatic grounds, it should be much easier to disengage federal aid from programs where that aid is small, relative to state and local expenditures, than to do so where federal aid is very large.

Table 1 shows how the major groupings of existing federal aid programs might fare under these criteria. It should be noted, however, that this table is not the result of a detailed examination. Closer analysis might well show, for example, that interstate highways should be nationalized while primary, secondary, and urban highway responsibilities should be returned exclusively to the states in an even-steven trade. Of course, this would put the federal government into the highway construction, maintenance, and patrol business as they never have been before, so the present state-oriented arrangement, which has a very long tradition behind it, might be preferred.

Transit programs should be local, in theory, but since the states have not provided adequate means for financing them, while the federal government has, the phasing out of federal aid would mean that state, local, or fare box money would have to take its place or service cut back.

Airports probably should become largely self-sustaining (from landing fees and concessions, for example), allowing federal aid to be phased out.

The potential for shifting particular programs or parts of programs from one column to another in Table 1, and for consolidating retained programs and changing their allocation formulas to target benefits more appropriately, would allow pragmatic adjustments to be made which could help balance the financial implications of alternative trade-off packages.

TABLE 1: ILLUSTRATIVE SORTING-OUT OF EXISTING FEDERAL AID PROGRAMS USING FEDERAL PURPOSE, HISTORY, AND RELATIVE FINANCIAL SHARES CRITERIA

Federalize	Terminate	Retain (and consolidate)
Income Security	Education (Fiscal Equalization)	Education (Mandates)
Insurance	Elementary and Secondary	Special Groups
Cash Payments	Vocational	Research
	Higher	
	Other	
Housing and Energy Assistance		Public Housing (Merge with CDBG)
Medicaid	Other Medical Assistance	Medical Research (Block)
Food Stamps	Food (other than Food Stamps)	
Job Training/Rehabilitation		
Job Placement		
Child Care	Social Services (except Child Care)	State and Area Agencies on the Aging
		Community Action Agencies
		General Revenue Sharing
		Water Pollution Control
Occupational Safety and Health		Environmental Protection (other than Water)
		Community and Rural Development
		Transportation
		Highways
		Transit
		Airports
		Other
	Criminal Justice	Criminal Justice (Research and Training)
		Economic Development Districts
		Regional Action Commissions
		Civil Preparedness
	Libraries	
	Volunteer Services	
	Arts and Humanities	
	Fire Protection	
Meat and Polutry Inspection		
		Miscellaneous

ACIR's Trial Balloons. Following the line of reasoning described above, the ACIR staff has developed two illustrative packages of grant program trade-offs intended to be essentially neutral in financial terms. That is, the present costs to state and local governments of programs for which the federal government would take full responsibility, would approximately equal the federal grant dollars lost by the state and local governments. The Commission has supported the notion of the federal government's full financial responsibility for basic welfare programs ever since 1969, and in 1980 it expanded the concept to cover a broader range of benefits to the needy including housing, nutrition, and employment security.

The staff's first illustration of potential trade-offs (see Attachment 1) was based upon the broad groupings of state and local government expenditure for welfare, social insurance, and housing recorded by the Census Bureau, and gross totals for all grant programs in the fields of education, libraries, fire protection, police and corrections, health and hospitals, natural resources, and airports. Such a trade-off would involve some 232 existing grant programs.

A somewhat more refined program-by-program analysis yielded a second trade-off package involving about 140 programs. (See Attachment 2.) This one still has basic welfare programs on the federal side, but shifts most social services programs to the state and local side along with most nutrition and medical programs other than food stamps and Medicaid. Selected education programs fill out the state and local side.

State Associations. The National Governor's Association and the National Conference of State Legislatures have gone on record jointly in favor of a "division of labor [recognizing] the primary federal policy and financial responsibility for national defense, income security, and a sound economy, and the primacy of state and local governments in such areas as education, law enforcement, and transportation." Governor Babbitt has stated the case for federal responsibility in welfare (including AFDC, SSI, and food stamps) in exchange for devolution of authority to state and local governments for law enforcement, education, and highways. (See Attachment 3.) This proposal could reduce the number of federal grant programs by up to 132. Financial figures for these programs, as compiled by the ACIR staff, are presented in Attachment 4.

Federal-State-Local Negotiations. Some interest has been expressed in the United States Senate about trading full federal responsibility for Medicaid against equivalent funding reductions for grants in such fields as food and nutrition (except food stamps), social services, education, highways, and law enforcement. Staffs of the major public interest groups representing state and local governments have been in consultation with Senate representatives concerning this proposal. By request, the ACIR staff has developed several options for consideration by various senators and committee staffs, and by the staffs of the major associations of state and local government officials.

These options are outlined in Attachment 5. They involve from 87 to 117 programs, depending upon which option is considered.

President Reagan's Trades. The Reagan administration, in its program for economic recovery, has spoken of two types of off sets to the proposed budget reductions in grant programs to state and local governments. One is the reduction in burdensome rules and regulations which increase the costs of pursuing programs while restricting the use of measures which would allow state and local governments to target grant funds most effectively and efficiently. The other is return of revenue sources of state and local government. Thus far, revenue turnbacks have been discussed only as a concept, with no specific proposals having been announced. The Administration most frequently sets the value of reduced federal rules and regulations at 20-25% of the dollar value of programs, while the National Governor's Association has talked in terms of 10-15%. Reagan Administration spokesmen have discouraged consideration of any increased federal responsibility over activities presently encompassed by the grant system. To the contrary, their proposal in the welfare field is to give more responsibility to the state and local governments, rather than less.

Summary of Trade-Off Proposals. Table 2 summarizes the four basic trade-off proposals mentioned above — showing their source, programs suggested for full federal responsibility, programs for state and local responsibility, and the combined number of programs by which each proposal might reduce the total number of programs in the federal grant system. As this table shows, there is a wide range of options, affecting anywhere from 87 programs to well over 200.

It should be noted that none of these proposals has been analyzed completely. If one or more of these has significant appeal, they should be further evaluated for their effects on program results, on the fiscal resources of federal, state, and local governments, and on program administration. Both favorable and adverse impacts should be identified, and potential approaches for the amelioration of adverse impacts should be sought. Any proposal which would severely cut program benefits, leave state and local governments substantially worse off financially, or prove unworkable administratively probably would be unacceptable.

Of course, this trade-off concept was developed for the purpose of restructuring the grant system, rather than reducing the federal budget. Budget reduction is a separate issue, though certainly not unrelated. Budget cuts could be made equally on both sides of these proposed trade-offs, or they might concentrate more on one side than on the other.

TABLE 2: SUMMARY OF POTENTIAL FEDERAL GRANT TRADE-OFFS

Proposed by	Programs			
	Federal Responsibility		State and Local Responsibility	
1. ACIR (illustrative example)	I. Welfare (including medicaid and food programs)	39	I. Education	77
	Social Insurance	2	Libraries	6
	Housing	6	Fire Protection	3
		47	Police & Corrections	20
			Health & Hospitals	56
			Natural Resources	21
			Airports	2
				185
				+ 47
				232
	II. Social Insurance	2	II. Education	26
	Welfare (cash payments)	3	Medical Services & Training	43
	Voucher Type Programs:		Nutrition	13
	Housing	2	Social Services	21
	Energy	2		103
	Medicaid	2		+ 27
	Food Stamps	2		140
	Job Training	4		
	Vocational Rehabilitation	8		
	Child Care	1		
	Incidental Services	1		
		27		
2. State Associations	Welfare		Law Enforcement	20
	AFDC	1	Education	77
	SSI	1	Highways	31
	Food Stamps	2		128
		4		+ 4
				132
3. Federal-State-Local Negotiations	Medicaid	1	Food & Nutrition (except food stamps)	
			Social Services	
			Education	
			Highways	
			Law Enforcement	
				(86-116 programs)
				+1
				(87-117)

ATTACHMENTS

1. ACIR Trade-Off Illustration I
2. ACIR Trade-Off Illustration II
3. Governor Babbitt's Trade-Off Proposal
4. ACIR Figures Concerning Programs in Governor Babbitt's Trade-Off Proposal
5. Alternatives to Balance Off Shifting Medicaid to Full Federal Responsibility

ATTACHMENT 1

ACIR Trade-Off Illustration I

(Excerpt from Recommendation 1,
<u>The Federal Role in the Federal System</u>)

* * * * * *

In this recommendation, the Commission stresses full national responsibility for certain programs combined with devolution to the state and local levels or the private sector of responsibilities for others. This "trade-off" is advised as a major method of decongesting the federal grant system. At the same time, it is meant neither to detract from nor to decrease the effort that must be mounted to simplify and consolidate the remaining grant programs.

The new features of this recommendation are (1) a bolder approach to the federal assumption of certain responsibilities (potentially expanding beyond welfare and medicaid to encompass related human needs for jobs, housing, and basic nutrition), (2) a serious attempt to establish uniform administration consistent with the national responsibility (including the possibility that this might mean direct administration by federal employees in at least some cases), and (3) returning full responsibility for certain other programs to the state and local governments or the private sector.

There are a wide variety of specific "trade-off" packages that would be consistent with the Commission's general policy recommendation. Here, purely for illustrative purposes, we offer a tentative proposal based upon the assumption that the financing of nationally assumed responsibilities would approximately equal the financing responsibilities turned back to the state and local governments, so that the total revenue needs of the various levels of government remain substantially unchanged. This might well be unrealistic. Our primary goal, however, is to unburden the federal aid system and the political processes that sustain it, rather than to alter substantially present revenue structures.

The net effect of this decongesting recommendation, along with older recommendations for simplification and consolidation, is depicted schematically in Figure 1. The important points highlighted in this chart are:

- Terminated or phased out federal aid programs may cease to exist if they are not assumed by state and local governments.
- Some existing federal aid programs might be partially terminated through some form of cut-back in their scope. Some of these cutbacks would be picked up by the state and local governments, while others might not be.
- Of those federal aid programs retained completely, most would be consolidated and simplified, while a few might remain essentially unchanged.

Table 2 shows census figures for governmental expenditures in eleven major functions, broken down by their federal and state-local shares. The federal share of total expenditures is large for the functions of airports (77 percent), housing and urban renewal (88 percent), natural resources (90 percent), public welfare (67 percent), and social insurance (94 percent). In this tabulation, public welfare includes medicaid, food stamps, and social services as well as the more traditional components of aid to families with dependent children and general assistance. Broad program areas in which the total federal share is small to moderate include education (16.5 percent), fire protection (less than 1/10 of 1 percent), highways (26 percent), health and hospitals (32 percent), libraries (10.3 percent), and police and corrections (10.5 percent).

Table 3 more pointedly summarizes the intergovernmental aspects of program financing. It shows that the federal aid shares of state and local expenditures aggregate more than 50 percent in three programs: housing and urban renewal (80 percent), public welfare (53.2 percent), and social insurance (87.2 percent). The federal aid share is moderate in another

FIGURE I
STRATEGY FOR
DECONGESTING THE FEDERAL GRANT SYSTEM

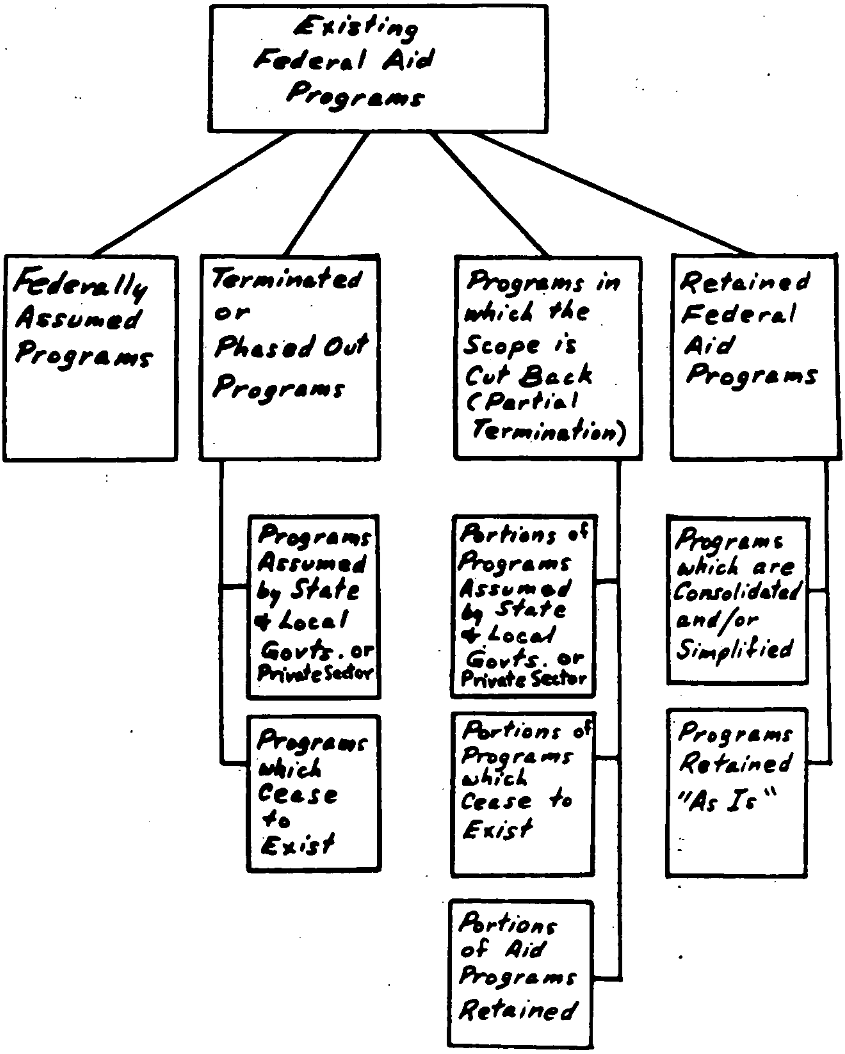

TABLE 2
Governmental Expenditures in 1977,
Selected Functions by Level of Government (millions of dollars)

Functions	Level of Govt. All	Fed.	S-L	% Total Fed. Expend. of All Govt. Expend.	% Federal Intergovtl. of: All	S-L
Airports	3,834	2,936	1,617	77	--	--
Direct	--	2,217	--	--	--	--
Intergovtl.	--	719	--	--	19	44
Education	118,750	19,594	110,758	16.5	--	--
Direct	--	7,992	--	--	--	--
Intergovtl.	--	11,602	--	--	9.7	10.5
Fire Protection	4,802	--	4,802	--	--	--
Direct	--	--	--	--	--	--
Intergovtl.	--	4	--	--	--	.08
Highways	24,886	6,474	24,609	26	--	--
Direct	--	277	--	--	--	--
Intergovtl.	--	6,197	--	--	25	25
Health and Hospitals	33,086	10,599	22,487	32	--	--
Direct	--	8,135	--	--	--	--
Intergovtl.	--	2,464	--	--	7.4	11
Housing and Urban Renewal	6,044	5,314	3,699	88	--	--
Direct	--	2,345	--	--	--	--
Intergovtl.	--	2,969	--	--	49	80
Libraries	1,518	156	1,362	10.3	--	--
Direct	--	53	--	--	--	--
Intergovtl.	--	103	--	--	6.8	7.6
Natural Resources	26,298	23,701	4,225	90	--	--
Direct	--	22,073	--	--	--	--
Intergovtl.	--	1,628	--	--	6	38.5
Police and Corrections	18,194	1,907	16,287	10.5	--	--
Direct	--	1,356	--	--	--	--
Intergovtl.	--	551	--	--	3	3.4
Public Welfare	54,225	36,597	37,679	67	--	--
Direct	--	16,546	--	--	--	--
Intergovtl.	--	20,051	--	--	37	53.2
Social Insurance	3,943	3,717	1,764	94	--	--
Direct	--	2,179	--	--	--	--
Intergovtl.	--	1,538	--	--	39	87.2

SOURCES: U.S. Bureau of the Census, Governmental Finances in 1977-78 and Compendium of Government Finances: 1977 Census of Governments.

TABLE 3

Federal Aid Share of State and Local Expenditures for Eleven Major Functions

LARGE (Potential Federal Assumption) (More than 50%)		MODERATE (Potential Shared or Mixed Programs) (15-50%)		SMALL (Potential State-Local Assumption) (Less than 15%)	
Social Insurance	87.2%	Airports	44.0%	Health and Hospitals	11.0%
Housing and Urban Renewal	80.0%	Natural Resources	38.5%	Education	10.5%
Public Welfare (includes Medicaid, food stamps, social services, etc.)	53.2%	Highways	25.0%	Libraries	7.6%
				Police and Corrections	3.4%
				Fire Protection	0.1%

SOURCE: TABLE 2

three programs: airports (44 percent), highways (25 percent), and natural resources (38.5 percent) and it is small in five program areas: education (10.5 percent)*, fire protection (0.08 percent), health and hospitals (11 percent), libraries (7.6 percent), and police and corrections (3.4 percent). Thus, based upon the principle that program areas already heavily funded by the federal government should be prime candidates for full federal funding, housing, welfare, and social insurance programs come to the fore. Conversely, those programs with a small federal share appear to be the most likely candidates for termination or phasing-out of the federal aid role: namely, education, fire protection, public health and hospitals, libraries, and police corrections. Programs in the middle range -- airports (44%), natural resources (38.5%), and highways (25%) -- might remain intergovernmental, or might be separated into federal and state-local portions not involving federal aid.

This approach to sorting out the federal and state-local roles for major governmental functions clearly produces only a very rough first cut. The published census data do not allow fine breakdowns so that individual federal aid programs can be examined in their full inter-governmental financial context. Moreover, criteria other than financial contributions may be critical to final determinations about full federal assumption of responsibilities or devolution to the state and local governments. It should be pointed out, however, that those programs already possessing a large federal share are ones which ultimately assist individuals primarily, rather than state and local governments. They chiefly include income redistribution programs in which equitable treatment is a prime factor,

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* For local school districts alone, this figure is 8.1 percent. See Bureau of the Census, Finances of School Districts, Volume 4, Number 1, Governmental Finances, 1977 Census of Governments, GC77(4)-1, Washington, DC, U.S. Government Printing Office, March 1979, p. 1.

and uniform nationwide benefit levels (adjusted for cost of living variations) would be especially important. Also, considering the high mobility of people and jobs, and the increasingly close linkage between these income redistribution programs and work incentives, it is important that nationwide standards be applied so that individual state and local variations in such programs will not impede mobility.

Thus, it is recommended that those programs which provide for the basic human needs of income security, employment security, housing, medical attention, and basic nutrition be assumed with full financial responsibility by the federal government under conditions which provide for consistent nationwide administration and uniform levels of benefits throughout the nation, adjusted for cost of living vaeiations. Some "leveling up" of benefits undoubtedly would be necessary in establishing nationwide equity, although the cost of living adjustments would help to off-set some of the aggregate dollar growth in these programs from that source. Full federal financing is envisioned to bring benefits for all individuals up to an adequate national standard, and not as a case of federal preemptions which would prohibit state or local governments from meeting unanticipated needs which might arise beyond the reach of the uniform national program.

It is a highly complex matter to determine whether direct administration of these programs by federal employees would provide the best likelihood of consistent nationwide administration. The Commission did not have enough information to take a position on this. Greater nationwide consistency could be sought by continuing the traditional state and local administration of such programs under stricter administration guidance by the responsible federal agencies. On the other hand, with little state and local money already on these programs, and this recommendation calling for none, incentives for efficiency by state and local administrators would be weak. And case studies of wholly federally paid portions of subnational bureaucracies provide some stark examples of unresponsiveness and inefficiency. At the same time, the federal government already has significant networks of field offices for most of these programs. For example, the social

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security administration has district and branch offices and a series of teleservice centers blanketing the nation. HUD has a network of 77 area and FHA insuring offices. The United States Employment Service is affiliated with 2500 local offices run by the state employment services and employing approximately 111,000 workers who are paid mostly with federal funds. The Farmers Home Administration has a network of county and multi-county offices involved in housing loans and mortgage guarantees.

Upon this base, a consolidated network of federal benefits offices could be constructed and it would have the potential for integrating the whole array of federal dollar benefits to individuals, working toward a "whole person", one-stop basis. But, with its emphasis on dollar benefits (including food stamps, medical reimbursements, and rent payments, as well as welfare checks), this consolidation almost certainly would not encompass the social services staffs found in the state and local government and private agencies.

Chances for success in trade-offs would be optomized, some contend, if the aggregate amount of funds on both sides are roughly equal and if it is likely that many of the subnational units will actually assume the terminated federal aid programs. Those programs already listed for federal assumption are the ones least likely to be assumed by the state and local governments because of their high cost and their controversial nature. On the other hand, the fact that the state and local governments and some private agencies already provide the bulk of the funds for education, fire protection, health and hospitals, libraries, and police and corrections makes it likely that they might pick up extra responsibilities in these fields using funds released by the full federal assumptions. In addition, with extra funds available, they also might assume added responsibilities in the fields of natural resources and airports. Both of them could be funded to a somewhat larger degree by fees for services collected at the point of use and the need for both is relatively non-controversial.

Based upon this reasoning, Table 4 presents a very rough illustrative calculation of the aggregate national financial implications of certain potential trade-offs.

TABLE 4

Funding of Federal Aid Programs
Involved in Rough Trade-Off Proposals

Fed. Assumption of State-Local Costs (millions)		State-Local Assumption of Present Fed. Aid Funding (millions)	
Public Welfare: Medicaid, Social Services, Food Stamps, etc.	17,628	Education:	11,602
		Libraries:	103
		Fire Protection:	4
Social Insurance: (including Unemployment Insurance)	226	Police and Corrections: (criminal justice)	551
		Health and Hospitals:	2,464
		Natural Resources:	551
Housing:	730	Airports:	719
	$ 18,584		$ 15,994
	- 15,994		
Net Federal Extra Cost.......	$ 2,590		

SOURCE: Table 2

While still unbalanced by about $2.5 billion, with the federal government picking up the extra under this very rough scenario, more precise calculations than we were able to make undoubtedly could bring this balance closer. For example, the published census figures for public welfare include some social services, which would be left in the federal aid system rather than being assumed fully by the federal government. This would reduce the federal side of the leger by a substantial, though presently indeterminate, amount. On the other hand, it is likely that not all education programs would be turned back to the state and local governments. Excluded from this devolution might be certain highly specific benefits for special groups or special purposes (perhaps related to federal mandates) such as the handicapped, especially disadvantaged minorities, and the elimination of sex discrimination in athletics. Also excluded might be certain educational research activities best sponsored at the national level. More precise considerations such as these would be essential in developing a workable package of trade-offs.

The Commission also realizes that another requisite to viable trade-offs is designing the proposals so that the net financial effects on the various states and localities are not negative. The necessary disaggregated calculations, of course, will be highly complex and delicate, but in today's financial cut-back situation, it will be important to minimize net losses to as many as possible of the jurisdictions, including the federal government. The states might well assist in balancing needs and resources among their local jurisdictions as the trade-offs occur. A substantial over-assumption of financial responsibilities at the national level, which might have been used in earlier years to ease this decongestion by trade-off proposal, appears to be quite unlikely at the present time.

The inability to meet this jurisdictional balance criterion was one of the main reasons why the Joint Federal-State Action Committee failed in its attempts in the late 1950's to turn some programs and equivalent revenue sources back to the state and local governments.

Putting aside these concerns for the moment, however, Table 5 shows an approximate number of federal aid programs which could be eliminated by the rough trade-offs proposed in Table 4. The grand total of 232 programs is nearly one-half of the total 473 grant programs included in the 1979 edition of the Catalogue of Federal Domestic Assistance. (These 473 programs, listed by magnitude in Appendix Table A-1 and grouped by subject in A-2, are those which currently provide grants, research contracts, or payments to individuals. The list differs somewhat from ACIR's own list of 498 grants to state and local governments because of several differences in defining programs.) As indicated previously, it is likely that the scope of programs involved in these trade-offs would be trimmed back somewhat upon more detailed examination. However, this is the general magnitude of trade-offs which might be expected from a faithful application of the Commission's recommendation.

TABLE 5

Number of Federal Aid Programs Involved in the Rough Trade-Off Proposals

FEDERAL ASSUMPTIONS		STATE/LOCAL ASSUMPTIONS	
Public Assistance:	24	Education:	77
including Medicaid:	1	Libraries:	6
and Food Assistance:	14	Fire Protection:	3
		Police and Corrections:	20
Social Insurance:	2	Health and Hospitals:	56
		Natural Resources:	21
Housing:	6	Airports:	2
	47		185

Totals:	
Programs Federally Assumed	47
Programs Devolved to the State and Local Governments	185
Grand Total:	232

SOURCE: Table 6

TABLE 6

FEDERAL AID PROGRAM CLUSTERS,
RANKED BY AMOUNT OF FY 1980 FUNDING

Cluster Rank	No. of Programs	Cluster Name (& sub-cluster detail)*		FY 1980 Funding (ooo)
1	6	Housing		22,606,628
2	102	Medical:		17,557,786
		(57) Assistance	15,069,424	
		(45) Research	2,506,362	
3	18	Employment & Training		13,998,608
4	23	Transportation:		11,814,383
		(6) Highways	8,829,143	
		(5) Transit	2,344,850	
		(2) Airports	560,100	
		(10) Other	80,290	
5	14	Food & Nutrition		11,386,968
6	24	Public Assistance		10,686,794
7	77	Education		7,345,617
		(31) Elementary & Secondary	5,897,005	
		(17) Adult & Higher Education	304,829	
		(13) Vocational Education	704,227	
		(10) Research	378,421	
		(6) Other	61,135	
8	1	General Revenue Sharing		6,863,000
9	33	Environmental Protection:		5,096,314
		(17) Water	4,850,013	
		(16) Other	246,301	
10	41	Development:		4,819,985
		(9) Community	4,359,964	
		(29) Economic	443,581	
		(3) Rural	16,440	
11	21	Natural Resources Conserv. & Dev.		945,980
12	14	Vocational Rehabilation		842,243
13	20	Criminal Justice		613,296
14	5	Economic Opportunity		554,354
15	7	Civil Preparedness		242,549
16	30	Arts and Humanities		217,355
17	4	Occupational Safety and Health		201,320
18	5	Volunteer Services		104,502
19	6	Libraries		88,012
20	9	Energy		24,709
21	3	Fire Protection		843
22	10	Miscellaneous		198,410
		TOTALS		
	473			$ 116,227,656**

SOURCE: Office of Management and Budget, 1979 Catalog of Federal Domestic Assistance, Washington, DC, U.S. Government Printing Office, May 1979, and ACIR staff. See Appendix Table A-2 for detailed list of programs in each cluster.

* Sub-cluster details are numbers of programs in ( ) and FY 1980 funding expressed in thousands of dollars of estimated obligations.

** This figure is larger than the usually cited figure of $88.9 for FY 1980 federal grants because it includes a slightly broader list of programs.

Table 6 shows how the 473 federal grant programs cluster together into 22 major categories and in some cases into several sub-categories. The major clusters are listed in descending order of their financial size. It is important to note that only 10 of the 473 programs fall into the miscellaneous cluster. All the rest are subsumed, in one way or another, under a broader purpose and related to other aid programs. Thus, some might be as likely candidates for consolidation as for termination. Still, some undoubtedly could be terminated on the basis of making only a minor contribution to the larger purpose or being obsolete, or of having little or no positive effects. By the same token, not all of the miscellaneous programs are likely candidates for termination, even though all of them are small -- the largest being only about $57 million. For example, among these small miscellaneous grants are the Army National Guard, research by the Food and Drug Administration, and the applied science and research program of the National Science Foundation.

Table 7 lists the program clusters in order of the average funding per program within the cluster. Clusters which are roughly equivalent to the federal assumption/state-local devolution trade-off illustration are marked by an asterisk in this table, since further consideration for termination or consolidation would not be needed. In general, the smaller the average program size within the remaining clusters, the more likely that consolidation would be appropriate.

Another way to examine the clusters is to calculate a program fragmentation index based on a composite of the small funding and large number of programs within the clusters. This calculation (the cluster's percentage of all programs divided by its percentage of all aid funds)

TABLE 7
FEDERAL AID PROGRAM CLUSTERS,
RANKED BY AVERAGE FUNDING PER PROGRAM

Cluster Name	No. of Programs	$ Amt. of Cluster (000)	Average $ Amount Per Program (000) Mean	Median
General Revenue Sharing	1	6,863,000	6,863,000	6,863,000
Housing*	6	22,606,628	3,767,771	409,200
Highways	6	8,829,143	1,471,524	194,463
Food & Nutrition*	14	11,386,968	813,355	224,800
Employment & Training	18	13,998,608	777,700	162,740
Community Development	9	4,359,964	484,440	53,000
Public Transit	5	2,344,850	468,970	55,000
Public Assistance*	24	10,686,794	445,283	18,928
Water Pollution Control	17	4,850,013	285,295	8,220
Airports*	2	560,100	280,050	---
Medical Assistance	57	15,069,424	264,376	19,000
ALL PROGRAMS	473	116,227,388	245,720	13,000
Economic Opportunity	5	554,354	110,871	52,854
Education*	77	7,345,617	95,397	9,750
Vocational Rehabilitation	14	842,243	60,160	27,500
Medical Research	45	2,506,362	55,697	39,466
Occupational Safety & Health	4	201,320	50,330	9,400
Natural Resources Conservation & Development*	21	945,980	45,047	9,215
Civil Preparedness	7	242,549	34,650	3,827
Criminal Justice*	20	613,296	30,665	5,028
Volunteer Services	5	104,502	20,900	23,214
Miscellaneous	10	198,410	19,841	23,705
Environmental Protection (except water)	16	246,301	15,394	9,200
Economic Development	29	443,581	15,296	5,019
Libraries*	6	88,012	14,669	9,975
Other Transportation	10	80,290	8,029	1,940
Arts & Humanities	30	217,355	7,245	5,700
Rural Development	3	16,440	5,480	5,000
Energy	9	24,709	2,745	800
Fire Protection*	3	843	281	255

SOURCE: TABLE 6 and ACIR staff compilations.

*Program Clusters roughly equivalent to trade-off proposals.

makes it easier to see which program clusters are less and which are more fragmented. The values for this index are shown in Table 8. Opportunities for consolidation and simplification should not be overlooked in any cluster not previously traded off, but the higher the fragmentation index number for any remaining cluster, the greater the need is likely to be for consolidation or termination of minor grants therein.

In evaluating the remaining programs for possible merger or termination, a great deal more work needs to be done within each cluster. It is impossible in a general study such as this to apply the consolidation and termination criteria enumerated in this recommendation to the broad array of 500-odd federal aid programs. Not only would this be a very large task, but presently available information is not adequate to make final decisions concerning some of the issues involved. For example, the criteria about high administrative costs relative to the federal financial contribution was investigated by the General Accounting Office in 1978, and their conclusion was that "The federal government should but doesn't know the cost of administering its assistance programs." 1/

Some consolidations may have the potential for reducing red tape and increasing the effectiveness of state and local use of allocated funds within the program area to the point where a small reduction in total funds would be justified -- perhaps by ten percent. The National Governors' Association, for example, estimated in 1979 that program consolidations in the following fields could produce cost savings of up to ten percent: employment and training, environmental protection, community and economic

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1/ The Comptroller General of the United States, The Federal Government Should, But Doesn't Know the Cost of Administering Its Assistance Programs, GGD-77-87, Washington, DC, U.S. General Accounting Office, February 14, 1978.

TABLE 8

FEDERAL AID PROGRAM CLUSTERS,
RANKED BY FRAGMENTATION INDEX

	Cluster Name	% of Programs in Cluster (A)	% of FY 80 Est. Obligations in Cluster (B)	Fragmentation Index**
Less Fragmented	General Revenue Sharing	.21	5.90	.04
	Housing*	1.26	19.45	.06
	Highways	1.26	7.60	.17
	Food & Nutrition*	2.95	9.80	.30
	Employment & Training	3.80	12.04	.32
	Community Development	1.90	3.75	.51
	Public Transit	1.05	2.02	.52
	Public Assistance*	5.06	9.19	.55
	Water Pollution Control	3.59	4.17	.86
	Airports*	.42	.48	.88
	Medical Assistance	12.02	12.96	.93
	ALL PROGRAMS	100.00	100.00	1.00
More Fragmented	Economic Opportunity	1.05	.48	2.19
	Education*	16.24	6.32	2.57
	Vocational Rehabilitation	2.95	.72	4.10
	Medical Research	9.49	2.16	4.39
	Occupational Safety & Health	.84	.17	4.94
	Natural Resources Conservation & Development*	4.43	.81	5.47
	Civil Preparedness	1.48	.21	7.05
	Criminal Justice*	4.22	.53	7.96
	Volunteer Services	1.05	.09	11.67
	Miscellaneous	2.11	.17	12.41
	Libraries*	1.26	.08	15.75
	Environmental Protection (except water)	3.38	.21	16.10
	Economic Development	6.12	.38	16.11
	Other Transportation	2.11	.07	30.14
	Arts & Humanities	6.33	.19	33.32
	Rural Development	.63	.01	63.00
	Energy	1.90	.02	95.00
	Fire Protection*	.63	.0007	86,858.81

SOURCE: TABLE 6 and ACIR staff compilations.

* Program clusters roughly equivalent to trade-off proposals.

** Column A ÷ Column B.

development, education, law enforcement, energy, social services, and health. 1/

Another approach to the termination of small grant programs for activities which are very likely to be picked up by state and local governments would be to balance off this loss of funds to state and local governments by an increase in general revenue sharing. On the assumption that this would reduce paperwork and increase efficiency at the lower levels, the increase in general revenue sharing might be trimmed by about ten percent below the amount of the terminated categorical grant or grants.

Finally, it should be noted that major federal assumptions of programs might be phased in over a period of a few years, while major terminations of federal aid to the state and local governments might be phased out over a similar period of time. This could help to avoid major disruptions by allowing time for budget realignments and the necessary administrative accomodations.

The success of any major trade-offs, consolidations, and terminations will depend very largely upon the ability of the state and local governments to reach agreement and band together in supporting such proposals, and will require close collaboration among officials at every level. Recommendation 4 stresses the responsibilities facing state and local governments and their national associations. While a variety of systems of intergovernmental consultation will be necessary, Recommendation 5 calls upon the President to convene a national convocation on federalism to formulate an agenda for intergovernmental reform, including trade-off proposals.

1/ National Governors Association, Review of Grant-In-Aid Priorities, Washington, DC, September 1979, p. 2.

If the state and local governments fail to make this effort, the most likely result will be a continuation of growth in the number of narrow categorical grant programs, a growing intensity of grant conditions and administrative regulations, continued growth of red tape, and fewer real dollars to work with as grant funds level off and inflation eats away at appropriated amounts. Detailed federal prescriptions will continue for such minute local activities as school security, urban gardening, pot-hole repair, training for use of the metric system, arson control, home insulation, urban parks, meals on wheels, jelly fish control, snow removal, police disability payments, aquaculture, displaced homemakers, rat control, education of gifted children, alcohol abuse, homemaker and residential repair services for the elderly, development of bikeways, aid to museums, runaway youth, art education, and rural fire protection. And the list will grow and grow. Only a stirred-up state and local government constituency can stem this tide.

From the national vantage point, the strategy proposed in this recommendation offers some solid assurance that the domestic agenda of the Presidency and the Congress would assume more manageable proportions -- difficult as it assuredly will be. Perhaps as important, it would reduce the number of interest group pressures that have so nearly immobilized the system and thus would provide some basis for hoping that the national parties would be capable of reasserting their older role of "absorbing" and "reconciling" the claims of special interests. In short, all levels -- hence the system and the electorate -- would benefit by the adoption of a decisive decongestion strategy.

ATTACHMENT 2

ACIR Trade-Off Illustration II

(From follow-up work on Recommendation 1,
The Federal Role in the Federal System

Table 1 shows one example of a functionally limited, though relatively large-scale financial trade-off amounting to about $14 billion on each side of the ledger. Its rationale would be to federalize all of the income security cash payment and voucher types of programs, while terminating most federal programs for education and for medical, food, and other social services. These education and service programs, now actually performed almost exclusively and funded largely by state and local governments anyway, would become the full responsibility of those subnational units. On the federal side, many of the programs already are funded 100% by the federal government, and in no case less than 50%, even though most now are carried out by state and local governments.

The federalized income security programs would be administered by a network of federal offices built around present social security offices which would be beefed-up by consolidating into them state unemployment offices (now paid for 100% and closely regulated by the federal government), some housing personnel from HUD area offices and FmHA county and multicounty district offices, and probably some local welfare, food stamp, and CETA prime sponsor workers.

Objectives of federalizing and consolidating these programs would be to integrate into a single system the three existing types of income security programs — namely, insurance (social security and unemployment), cash payments (welfare and supplemental security income), vouchers (housing, medicaid, food stamps, child care, and job training), and referrals (contacts with social services agencies and job placement). This integration would allow a single administration to eliminate both gaps and overlaps in coverage of benefits, using savings from the elimination of duplications to extend coverage more uniformly and to equalize coverage among the states (using a cost of living index to attain equality of actual benefit levels as opposed to actual dollars).

- Administrative economies would be expected to result from making only a single eligibility determination for each individual or family, rather than the multiple determinations now needed for clients taking part in several different income security programs (a situation which occurs quite frequently).

- Additional savings also should be available through closer (direct federal) control of waste, fraud, and abuse.

- Still other economies could be realized through the reduction of "middle-man operations." For example, in the unemployment insurance program, basic benefits are provided by state taxes which are used to feed a federal trust fund upon which the states draw to provide benefits, but the states' administration of the program is paid for completely by the federal government and closely regulated from above, while extended benefits (beyond what can be covered by dedicated state taxes) are paid for out of general funds on a 50-50 matching basis by the state and federal governments. Another example of overly complex interrelationships occurs in the supplemental security income (SSI) program, where basic benefits are federally determined and paid, while states have the option of adding benefits which may be administered either by the federal government (for a fee) or by the states.

- Finally, administrative savings should result from consolidating administrative regulations. Currently this array of programs is provided by the Departments of Health and Human Services, Agriculture, Labor, Housing and Urban Development, and the Community Services

TABLE 1: A LIMITED FEDERAL AID TRADE-OFF EXAMPLE.

FEDERALIZE INCOME SECURITY (Federal Funding Pick-Up, $000)		TERMINATE (Federal Funding Loss, $000)	
		Education	4,032,954
Cash Payments to Individuals			
Insurance			
Social Security	0		
Unemployment	226,000		
Cash Payments			
Public Assistance (HHS)	7,000,000		
Work Incentives (HHS)	37,202		
SSI (HHS)	1,670,991		
Vouchers or Direct Payments to Vendors			
Housing Vouchers	0		
Weatherization (Energy)	0		
Emergency Energy (CSA)	8,000	Other Medical Assistance	2,452,625
Medicaid (HHS)	4,542,048	Food (other than Food Stamps)	4,543,398
Food Stamps (Ag.)	362,570		
Job Training			
CETA (Labor)	0		
Voc. Rehabilitation (HHS)	0	Social Services, etc. (except Child Care)	2,793,630
Child Care (HHS)	123,750		
Incidential Services	0		
Integrated Eligibility Determination	0		
Counseling	0		
Job Placement (Labor)	0		
	$ 13,970,561		$ 13,822,607

Administration. Therefore, regulations must be produced by all of those different federal bureaucracies and applied by various state and local functionaries. Welfare clients must become experts in grantsmenship in order to take advantage of the full array of benefits which may be due them. This is illustrated in the field of food and nutrition, for example, by the fact that the Community Services Administration now has a $28 million per year grant program designed exclusively for the purpose of helping its clients receive what they should from the Agriculture Department's various food programs which are administered through local welfare offices and local schools. At the very least, this CSA program should be terminated under the new arrangement, yielding a $28 million savings.

The voucher payments part of the proposed consolidated federal income security program would rely upon state, local, and private social services, medical, and housing providers remaining in business to serve the federal clients on a full cost reimbursement basis. The vouchers would be expected to provide adequate effective demand in the social services marketplace to support effective and efficient providers.

The income security program is a prime candidate for reform because of the large number of existing federal aid programs, their hodge podge nature which creats numerous overlaps and gaps in coverage, the unequal application of the programs allowing (it is alledged) that a particularly energetic and fortunate client taking advantage of all possible programs can approximate a minimum wage salary while a less fortunate and energetic client may be receiving very inadequate benefits which are getting worse each year because of inflation. At the same time there is substantial waste, fraud, and abuse (at least alleged), and very different benefit levels from one state to another. And, while it is quite generally agreed that welfare recipients who are able should be moved off the welfare roles into the nation's work force, the current linkage between welfare and employment programs is somewhat tenuous.

There have been numerous welfare reform efforts for over a decade, and substantial agreement on what the problems are. But only incremental changes, making the system even more of a hodge podge, have been adopted. The more comprehensive reforms have been pushed aside.

While the housing, food, and job training components of income security are financed completely or very largely by the federal government, the states must pay for about half of the cash payments programs and medicaid. Both of these latter programs are growing rapidly and lock in the states to expenditure increases over which they have very little control. Benefit increases are hard to resist politically at both the federal and state levels, especially when total benefits are never added up because they come from so many different programs. Administering these programs all as one block offers the opportunity to ferret out the duplications and respond equitably to the gaps.

The nearly $14 billion which state and local governments now spend from their own funds for income security programs (primarily cash welfare payments and medicaid) approximately equals the amount they would lose in aid for education, other types of medical assistance, food programs other than food stamps (which largely duplicate the food stamp program), and social services (excluding the 20% which would be federalized into a child care voucher program). The state and local governments, under this proposal, would retain their $1.2 billion general assistance welfare programs to take care of needs which the federal program would not reach (such as street people, local emergency relief, and so forth).

Terminating most federal grants for education, public health and hospitals, duplicated food programs, and social services would withdraw direct federal grant support from services typically provided by state and local governments and private service organizations. Those services would be expected to continue as a matter of tradition, and the existing public health clinics, hospitals, and social services agencies would have the potential for being reimbursed by the federal income security voucher system.

Most medical research programs probably should be retained but consolidated, while special "federal interest" grant programs in the education field which would be retained and consolidated would be limited to helping pay for federal responsibilities to the handicapped, minorities, migrant farm workers, Indians, and aliens (to whom federal mandates and special obligations apply). At the elementary and secondary level, the Head Start Program might be continued on the basis that it has been a federal initiative all along. At the higher education level, special programs might be retained for women's athletics, promotion of the metric system, cultural exchanges with foreign students, and student aid administration. Certain bilingual and special need programs might also be retained and consolidated for vocational education.

Appendix tables list those specific programs which would be federalized into the income security program, those which would be terminated in the education, medical assistance, food, and social services fields, and those which would be retained and/or consolidated in the education field. It should be emphasized that this is only one trial package, worked out rather hurriedly without a detailed study of each program involved. Nevertheless, it shows the type of reasoning which would be employed in developing such packages.

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APPENDIX TABLES

Glossary of Terms

FY 80 Funding - amount of funding expressed in thousands of current dollars

pg - project grants

fg - formula grants

dp - direct payment

SOURCE: Office of Management and Budget, 1979 Catalog of Federal Domestic Assistance, Washington, DC, U.S. Government Printing Office, May 1979, and ACIR staff.

TABLE A-1: Programs to be Federalized

FEDERAL AID CLUSTER #1 - HOUSING

Rank	Prog. #	Program Name	FY 80 Funding
1	14.156	Lower Income Housing Asst. - dp	20,045,328
116	10.405	Farm Labor Housing - pg, dp	55,000

FEDERAL AID CLUSTER #2 - MEDICAL ASSISTANCE

Rank	Prog. #	Program Name	FY 80 Funding
2	13.714	Medical Aid - fg	12,616,799
141	13.246	Migrant Health - pg, contracts	41,400

FEDERAL AID CLUSTER #4 - EMPLOYMENT AND TRAINING

Rank	Prog. #	Program Name	FY 80 Funding
4	17.232	Comprehensive Planning and Training - pg, fg	8,201,207
14	17.225	Unemployment Insurance - pg, dp	2,034,600
22	17.207	State Employment Services - fg, services	753,100
34	13.646	Work Incentives - fg	372,023
86	17.230	Employment of Seasonal Farmworkers - pg, fg, contract	87,295
91	17.234	Native American Employment and Training - fg	78,566

FEDERAL AID CLUSTER #5 - PUBLIC ASSISTANCE

Rank	Prog. #	Program Name	FY 80 Funding
5	13.808	Public Assistance (AFDC and Aid to Disabled) - fg	7,056,710
11	13.642	Social Services (Title XX) - fg	2,475,000 x 20% (Child Care)
50	81.042	Weatherization Assistance for Low Income Persons - pg	198,750
147	49.014	Emergency Energy Conservation - pg	40,000
352	13.812	Public Assistance Payments Research - pg, research contract	3,500

FEDERAL AID CLUSTER #7 - FOOD AND NUTRITION

Rank	Prog. #	Program Name	FY 80 Funding
7	10.551	Food Stamps	6,401,000
35	10.561	State Administration of Food Stamps - fg	362,570

FEDERAL AID CLUSTER #13 - VOCATIONAL REHABILATION

Rank	Prog. #	Program Name	FY 80 Funding
29	13.624	Rehabilitation Services and Facilities, basic grants - fg	417,484
70	13.625	Vocational Rehabilitation for Disabled - fg	113,680
115	13.451	Handicapped Personnel Preparation - pg	55,375
117	13.651	Vocational Rehabilitation for SSI Recipients - fg	55,000
170	13.629	Rehabilitation Training - pg	30,500
205	13.446	Handicapped Media - pg, dp	19,000
220	13.445	Deaf, Blind Centers for Children - pg, contract	16,000
244	13.649	Rehabilitation Services, Expansion - fg	11,775

TABLE A-2: Programs to be Terminated

FEDERAL AID CLUSTER #2 - MEDICAL ASSISTANCE

Rank	Prog. #	Program Name	FY 80 Funding
38	13.244	Community Health Centers - pg	319,483
41	13.232	Maternal and Child Health Services - pg, fg	255,300
54	13.295	Community Mental Health Centers - pg	194,673
61	13.256	Health Maintenance Organizations - pg, direct loans	152,540
63	13.235	Drug Abuse Community Service - pg, contract	147,385
65	13.217	Family Planning - pg	138,885
77	13.211	Crippled Children Services - pg, fg	102,100
96	13.244	Mental Health Clinical and Service Training - pg	70,663
99	13.777	State Health Care Survey Certification - pg, fg	69,645
102	13.268	Disease Control - pg	65,532
103	13.252	Alcoholism Treatment and Rehabilitation - pg, contract	64,572
110	13.257	Alcohol Abuse - fg	56,800
114	13.775	State Medical Fraud Control - fg	55,899
122	13.210	Public Health Service - fg	52,000
148	13.269	Drug Abuse - fg	40,000
149	13.887	Medical Facilities Construction - pg	39,855
159	13.284	Emergency Medical Services - pg	36,625
169	13.379	Family Medicine Graduate Training - pg	30,500
191	23.004	Appalachian Health - pg	23,700
194	64.015	Veterans State Nursing Home Care - fg	22,529
206	13.822	Health Careers Opportunity - pg	19,000
228	13.259	Mental Health, Children's Services - pg	14,830
236	13.298	Nurse Practitioner Training - pg	13,000
238	13.882	Hypertension Treatment - pg	13,000
240	13.290	Community Care for Alcoholism, Uniform Act - pg	12,127
269	13.886	Physician Assistant Training - pg	9,100
273	13.363	Nursing Scholarships - pg	9,000
284	13.280	Drug Abuse, Clinical and Service Related - pg, contract	7,978
303	64.005	State Nursing Home Care for Veterans, construction - pg	5,867
319	13.381	Health Professions, Financial Distress of Schools - pg	5,000
327	13.254	Drug Abuse - pg; contracts	4,960
330	64.016	Veterans State Hospital - fg	4,871
332	13.275	Drug Abuse Education - pg, contract	4,705
339	13.274	Alcohol Clinical Service and Training - pg	4,075

FEDERAL AID CLUSTER #2 - MEDICAL ASSISTANCE (continued)

Rank	Prog. #	Program Name	FY 80 Funding
340	13.890	Genetic Disease Testing and Counseling - pg	4,000
360	13.899	Alcohol Abuse Prevention Demonstration - pg	3,059
362	13.287	Emergency Medical Services Training - pg	3,000
365	13.296	Hemophilia Diagnostic Treatment Centers - pg	3,000
367	13.420	Alcohol and Drug Abuse Education - pg	3,000
376	13.292	Sudden Infant Death Information and Counseling - pg	2,802
394	13.237	Medical Health Hospital Improvement - pg	1,900
424	13.888	Home Health Services and Training - pg	804
449	13.238	Mental Health Hospital Staff Development - pg	325

FEDERAL AID CLUSTER #4 - EMPLOYMENT AND TRAINING

Rank	Prog. #	Program Name	FY 80 Funding
21	17.240	Youth Employment and Training - pg, fg, dp	797,974
26	17.242	Summer Youth Employment - pg, fg	533,225
30	17.211	Job Corps - pg, contract	415,700
60	17.243	Employment for the Disadvantaged - pg	162,740
68	17.239	Youth Employment, Community Conservation - pg, fg	134,008
73	17.241	Youth Employment, Entitlement Pilot - pg	107,100
188	10.663	Youth Conservation Corps - pg	24,790
213	10.661	Youth Conservation Service Corps - pg	18,000
252	49.010	Older Persons Opportunities - pg, contract	10,500

FEDERAL AID CLUSTER #5 - PUBLIC ASSISTANCE

Rank	Prog. #	Program Name	FY 80 Funding
11	13.642	Social Services (Title XX) - fg (except Child Care)	2,474,000 x 80%
37	13.679	Child Support Enforcement - fg, services	333,000
46	13.633	Aging Assistance - fg	219,470
80	13.644	Public Assistance Training (Title XX) - fg	100,825
111	13.645	Child Welfare Services - fg	56,500
168	13.810	Public Assistance Training - fg	31,000
172	13.634	Aging Services - pg, contract	30,000
216	13.637	Aging, Training Workers - pg, contract	17,000

FEDERAL AID CLUSTER #5 - PUBLIC ASSISTANCE (continued)

Rank	Prog. #	Program Name	FY 80 Funding
247	13.623	Runaway Youth Facilities - pg	11,000
278	12.008	Senior Companion Program - pg	8,135
321	13.648	Child Welfare Services and Training - pg	5,000
399	72.010	Anti-Poverty Mini-Grants for Volunteer Programs - pg	1,700

FEDERAL AID CLUSTER #7 - FOOD AND NUTRITION

Rank	Prog. #	Program Name	FY 80 Funding
12	10.555	School Lunch - sales, exchange	2,123,100
19	10.550	Surplus Food Distribution - sale, exchange	813,535
23	10.557	Special Supplemental Food for Women and Children - pg	750,000
42	13.653	Nutrition for the Aging - fg	254,546
45	10.553	School Breakfasts, Grants to States - fg, sale, exchange	224,800
47	10.550	Child Care, Food - fg, sale, exchange	213,000
67	10.559	Summer Food for Children - fg	135,800
163	10.560	Child Nutrition, State Expenses - fg	34,867
165	10.556	Milk for Children - fg	32,000
198	10.554	Equipment for School Food Services - fg	20,000
199	10.564	Nutrition, Education and Training - fg	20,000
398	10.563	Nutrition Education - pg	1,750
	49.005	Community Food and Nutrition - pg	28,000

FEDERAL AID CLUSTER #10 - EDUCATION

Rank	Elementary and Secondary Prog. #	Program Name	FY 80 Funding
10	13.428	Grants for Educationally Deprived Children - fg	2,625,594
27	13.478	Federal Impact School Aid - fg	483,000
52	13.571	Local Education Improvement - fg	197,400
153	13.431	Education of Children in State Institutions - fg	37,500
162	13.533	Right to Read - pg	35,000
212	13.577	Guidance Counseling and Testing in Elem. and Sec. Schools - fg	18,000
258	23.013	Appalachian Child Development - pg	10,000
333	45.127	Humanities Promotion in Elementary and Secondary Education - pg	4,500
345	13.562	Education of Gifted Youth - pg, contract	3,780
410	13.566	Art Education in Elementary and Secondary Schools - pg	1,250

FEDERAL AID CLUSTER #10 - EDUCATION (continued)

Rank	Prog. #	Program Name	FY 80 Funding
Higher Education			
81	13.400	Adult Education - fg	100,000
245	10.882	Higher Education Land Grants - pg	11,500
288	13.518	Higher Education Equipment - pg	7,500
323	45.111	Humanities Promotion in Higher Education - pg	5,000
334	45.139	Humanities Promotion in Higher Education - pg	4,400
387	45.138	Humanities Promotion in Higher Education, Pilot Grant - pg	2,000
439	13.455	Higher Education Academic Facilities - fg	500
Vocational			
28	13.493	Vocational Education, Basic Grants to States - fg	475,096
71	13.495	Vocational Education - fg	113,317
137	13.494	Consumer and Homemaking Education - fg	43,432
Other			
154	13.489	Teacher Corps - pg	37,500
237	13.416	Teacher Centers Inservice Training - pg	13,000
351	13.500	Environmental Education - pg	3,500
358	13.564	Consumer Education - pg, contract	3,135
368	13.581	Citizen Education, Cultural - pg, contract	3,000
419	13.680	Telecommunications for Delivering Health, Education, and Soc. Services	1,000

TABLE A-3: Programs to be Retained/Consolidated

FEDERAL AID CLUSTER #1 - HOUSING

Rank	Prog. #	Program Name	FY 80 Funding
13	14.146	Public Housing - pg, direct loans	2,082,500
31	14.158	Public Housing, modernization - pg, loans	409,200
264	23.005	Appalachian Housing - pg, direct loans	9,600
316	10.420	Rural Self Help Housing - pg	5,000

FEDERAL AID CLUSTER #2 - MEDICAL ASSISTANCE

Rank	Prog. #	Program Name	FY 80 Funding
74	13.294	Health Resource Planning - pg, contract	107,000
93	13.965	Coal Miners Respiratory Imparement Clinics - pg, research contracts	75,000
124	13.766	Health Financing Research - pg, research contract	51,282
171	13.292	State Health Planning - pg	30,000
186	13.226	Health Services Research and Development - pg, research contract	25,907
363	13.260	Family Planning Training - pg, research contract	3,000
404	13.698	Alcoholism Demonstration and Evaluation - pg	1,490
408	13.277	Drug Abuse Research Scientist Development - pg	1,370
412	13.361	Nursing Education Research - pg	1,101
415	13.231	Maternal and Child Health Research - pg	1,000
422	13.271	Alcohol Research Scientist Development - pg	986

FEDERAL AID CLUSTER #4 - EMPLOYMENT AND TRAINING

Rank	Prog. #	Program Name	FY 80 Funding
43	17.235	Community Service Employment, Older Americans - pg, research contract	234,800
211	30.002	EEOC Enforcement - research contract	18,500
230	17.233	Employment and Training Research - pg, contract	14,300

FEDERAL AID CLUSTER #5 - PUBLIC ASSISTANCE

Rank	Prog. #	Program Name	FY 80 Funding
164	13.612	Native American Self Sufficiency - pg, contract	33,800
208	13.628	Child Abuse and Neglect, Prevention, Treatment - pg, research contract	18,928
233	13.608	Child Welfare Administration and Research - pg, research contract	13,230

FEDERAL AID CLUSTER #5 - PUBLIC ASSISTANCE (continued)

Rank	Prog. #	Program Name	FY 80 Funding
239	64.014	Veterans State Domiciliary Care - fg	12,301
275	13.636	Aging Research - pg, research contract	8,500
300	13.647	Social Services Research and Demonstration - pg, research contract	5,975
322	13.652	Adoption Practices Improvement - pg, research contract	5,000
352	13.812	Public Assistance Payments Research - pg, research contract	3,500
405	13.640	Youth Development Research (ie. runaway) - pg, research contract	1,470

FEDERAL AID CLUSTER #10 - EDUCATION

Elementary and Secondary

Rank	Prog. #	Program Name	FY 80 Funding
20	13.449	Education of Handicapped Children - fg	804,000
24	13.600	Head Start - pg, services	700,000
48	13.429	Education of Migrant Children - fg	209,000
62	13.529	Emergency School Aid for Minority Children - pg	150,000
64	13.427	Education for Handicapped Children - fg	143,000
66	13.525	Emergency School Aid for Minorities - pg	137,600
85	13.532	Elementary and Secondary School Minority Aid - pg	95,769
121	13.495	Civil Rights Technical Assistance for Schools - grants	52,700
126	13.430	Disadvantaged Children Education Aid - fg	50,794
128	13.630	Development Disabilities Services - fg	49,880
132	13.534	Indian Education - fg	47,273
223	13.535	Indian Education - pg	15,000
261	13.530	Educational TV for Minorities - pg	9,858
307	13.631	Developmental Disabilities - pg	5,557
320	13.568	Education for Severly Handicapped - pg, contract	5,000
383	13.560	Regional Education for Deaf or other Handicapped - pg, contract	2,400
417	13.452	Handicapped Teacher Recruitment and Information - pg, contract	1,000
Higher Education			
92	13.548	State Student Incentive Grants - fg	76,750
112	13.492	Upward Bound - pg	56,000
221	13.488	Talent Search, Post Secondary - pg	15,300
256	13.565	Women's Education Equity - pg, contract	10,000
295	13.543	Educational Opportunity Centers - pg	6,300

FEDERAL AID CLUSTER #10 - EDUCATION (continued)

Rank	Prog. #	Program Name	FY 80 Funding
Higher Education			
302	13.536	Adult Indian Education - pg	5,930
395	13.561	Education, Metric System - pg, contract	1,840
423	13.440	Fulbright-Hays Educational and Cultural Exchange - pg, exchange	920
437	13.582	State Student Financial Aid Administration - fg	600
453	13.439	Fulbright-Hays Training Grants, Foreign Study - pg, services	289
Vocational			
203	13.499	Vocational Education, Special Needs - fg	20,000
207	23.012	Appalachian Vocational and Other Education - pg	19,000
254	13.554	Career Education - pg, contract	10,135
297	13.500	Vocational Education, State Advisory Councils - fg	6,073
298	13.541	Educational TV and Radio - pg, contract	6,000
310	13.498	Vocational Education Improvement Projects - pg, contract	5,236
357	13.563	Community Education - pg, contract	3,138
396	13.558	Bilingual Vocational Training - pg	1,820
430	13.589	Bilingual Vocational Instruction - pg	700
454	13.587	Bilingual Instructional Material, Vocational - pg, contract	280
Research			
59	13.403	Bilingual Education - pg, fg, research contract	173,600
83	13.950	Educational Research and Development - pg, contract	98,285
127	13.486	State Educational Agency Needs - fg	50,000
161	11.417	Marine Research, Educational Training - pg	35,236
262	13.450	Handicapped Regional Education Resource Centers - pg, contract	9,750
364	13.549	Ethnic Heritage Studies - pg	3,000
366	13.585	Education Information Centers - fg	3,000
369	13.632	Developmental Disabilities, University Affiliated - pg	3,000
402	13.992	Statistical Activities in State Education Agencies - pg	1,550
416	13.436	Foreign Language and Area Studies Research - pg, research contract	1,000

FEDERAL AID CLUSTER #13 - VOCATIONAL REHABILITATION

Rank	Prog. #	Program Name	FY 80 Funding
176	13.851	Communicative Disorders Research - pg, research contract	29,206
181	13.627	Rehabilitation Research - pg, research contract	27,500
201	13.443	Handicapped Research, Education and Demonstration - pg	20,000
202	13.444	Handicapped Research, Early Childhood - pg	20,000
209	13.871	Vision Research, Sensory and Motor - pg, contract	18,718
283	64.006	Rehabilitation Research, Prosthetics - research contract	8,005

ATTACHMENT 3

Governor Babbitt's Trade-Off Proposal

National Governors' Association

George Busbee
Governor of Georgia
Chairman

Stephen B. Farber
Executive Director

February 17, 1981

TO ALL GOVERNORS:

President Reagan has told us that he places a high priority on restructuring the American union into a federation of sovereign states. He has stated his intention to do so by returning many programs to the states, together with the revenue sources to finance them.

This unequivocal call to reform of the federal system, repeated at the Detroit convention, during the campaign, and again in the President's inaugural, is unparalleled in recent times. It presents to the Governors a chance to take the lead in a thorough-going reform of the federal system. Toward that end, the following paragraphs contain a brief analysis and a specific proposal for action.

The founding fathers, led by Hamilton and Madison, envisioned the American government as a two-tiered system with the national government responsible for matters of overriding national concern and other responsibilities left to the states--a federal system of dual sovereignty. This concept of course is reflected in both the enumerated powers clause (Article I, Section 8) and the language of the Tenth Amendment. During the debates in the constitutional convention John Dickinson phrased the relationship in a memorable Newtonian metaphor, comparing the federal system to the solar system, "in which the states were the planets and ought to be left to move freely in their proper orbits."

In recent years this dual federal system has all but disappeared. Categorical grant programs that began as modest efforts to provide supplementary assistance to local governments have evolved into instruments of federal program domination. Grant programs have metastasized beyond control; the Advisory Commission on Intergovernmental Relations has identified nearly 500 categorical grant programs, covering every conceivable governmental activity.

Federal invasion of state and local responsibilities will not be reversed by across-the-board budget cuts or other forms of general fiscal reform, however desirable such reforms may be for other objectives. Dual sovereignty can be restored only by a deliberate decision to uproot and terminate federal programs in selected program areas where the states can and will carry out their historic responsibilities.

I propose that the states respond to the President's invitation with an offer to assume full program and fiscal responsibility for three areas: 1) highways and mass transit, 2) law enforcement, and 3) elementary and secondary education. Roads, police, and schools historically are the most basic and local of governmental functions; each of these governmental functions commands broad community support and a high percentage of state and local financial assistance.

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TRANSPORTATION ($13 Billion)*

The national government presently spends about $9 billion yearly in highway aid and almost $4 billion to subsidize local mass transit systems.

The interstate highway system is now 98% complete. If the states cannot even maintain the system once constructed, it may be time to haul down the state flags, turn State Capitols over to the federal government, and arrange for a decent burial for the federal system. The states easily could assume responsibility for both interstate maintenance and all other road and bridge needs. It can be done by simply phasing out the 4¢ per gallon federal gasoline tax and inviting the states to levy a similar amount in place of the federal tax.

Much the same can be said for the $4 billion federal program to subsidize local mass transit programs. It is difficult to see any overriding national interest in subsidizing local mass transit. If the taxes were left at home, more states and cities would have the resources to develop their own programs free of federal interference.

LAW ENFORCEMENT ($500 Million)

The Safe Streets Act of 1968, which created the Law Enforcement Assistance Administration to subsidize local police agencies, is acknowledged widely, both in and out of law enforcement, to be a failure. Local law enforcement does not lack for local support, and no one has suggested that the federal government has any particular wisdom or expertise to impart with its money in this area. Indeed, the recent budget cuts in the LEAA program do not seem to have had any appreciable effect, positive or negative, on local crime rates.

ELEMENTARY AND SECONDARY EDUCATION ($6 Billion)

The federal government contributes nearly $4 billion per year to local schools, including grants for vocational education. Although this sum is less than 10% of total intergovernmental expenditures for elementary and secondary education, it has brought with it pervasive federal interference in nearly every aspect of local education. The two decades of increasing federal involvement in education have been paralleled by a steady national decline in scholastic achievement scores.

The original rationale for federal involvement related to disparities in local school financing; however, in recent years most states have moved to correct these inequities. It is now time to reassert the primacy of state and local financing and control of education.

FEDERAL ASSUMPTION OF WELFARE

Federalism is a two-way street. In exchange for an offer by the Governors to assume local responsibility for transportation, law enforcement, and education, the federal government should assume greater responsibilities in areas of overriding national interest. The obvious case is welfare. It is difficult to imagine

*The dollar figures set forth in this proposal are based on estimates of FY'81 expenditures. Estimates will vary somewhat according to the mix of categorical programs included.

justification for a system which encourages residents of one state to move to another simply because transfer payments are larger in the latter location. The National Governors' Association for years has been squarely on record asking for a uniform national welfare policy. The Advisory Commission on Intergovernmental Relations likewise has advocated that transfer payments be federalized.

Richard Nathan, the Assistant Director of OMB in the Nixon Administration, put it this way: "Welfare is an area in which a stronger role for the central government clearly is appropriate. The spillover effect of poverty across state lines and the economies from administering welfare with the aid of modern data processing technology are major reasons for this realignment of functions."

The President's Commission for a National Agenda for the Eighties likewise has recommended that welfare be federalized. The Commission estimates that a uniform national program for welfare, designed to provide a minimum security income at three-quarters of the poverty level, would cost approximately $15 to $20 billion more than the current hodge-podge of federal grants. With the savings effected by relinquishing categorical grants in education, law enforcement, and schools, the national government readily could assume the welfare function. At the same time, the consolidation of the various expensive and overlapping federal programs will generate considerable administrative savings.

CONCLUSION

In the historic joint statement on federalism reform adopted on November 25, 1980, by the NGA Executive Committee and the Steering Committee of the State-Federal Assembly of the National Conference of State Legislatures, we made a priority the "sorting out" of roles and responsibilities between the state and national governments. That statement recognized "the primary federal policy and financial responsibility for national defense, income security, and a sound economy, and the primacy of state and local governments in such areas as education, law enforcement, and transportation." If we are serious about the business of "sorting out", it is time to move from general expressions of support to specific proposals. I believe that the proposal outlined above is an appropriate starting point, and I submit it to you for your consideration.

Sincerely,

Bruce Babbitt

Bruce Babbitt

ATTACHMENT 4

ACIR Figures Concerning Programs
in Governor Babbitt's Trade-Off Proposal

A POTENTIAL TRADE-OFF, FEDERALIZING WELFARE IN EXCHANGE FOR TERMINATING MOST FEDERAL AID IN THE FIELDS OF LAW ENFORCEMENT, EDUCATION, AND HIGHWAYS

Programs	FY 80 ($000)	FY 81 ($000)	Federal Aid Funding To Be Terminated
Law Enforcement			
(grants to S & L Governments)			
Criminal Justice	311,571	- 0 -	
Juvenile Justice	100,000	100,000	100,000
Education			
Elementary & Secondary	5,897,005		
Higher	304,829		
Vocational	704,227		
Research	378,421		
Other	61,135		
Total	7,345,617		
Terminate	-4,032,957 1/		
Retain	$ 3,312,660 2/		4,032,957
Highways	(S/L Match)	9,200,000	
Interstate	(390,000)	3,900,000	5,700,000
Primary	(450,000)	1,800,000	($840,000 non-federal match)
Rural	(150,000)	600,000	
Urban	(200,000)	800,000	
Bridges, etc.	(425,000)	1,700,000	3,500,000
Misc.	(100,000)	400,000	($875,000 non-federal match)
			$ 13,332,957
Welfare			
(S/L Funding Responsibilities to Become Federal)			
Broadly Defined	$13,970,561 3/		
AFDC	7,000,000		
SSI	1,670,991		
Food Stmaps	362,570		
	9,033,561		

1/ Specific programs listed in Table A-2, Attachment 2.

2/ Specific programs listed in Table A-3, Attachment 2.

3/ A broader scope of "income security" programs including housing, medical, and employment aids. See Attachment 2.

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ATTACHMENT 5

Alternatives to Balance Off Shifting
Medicaid to Full Federal Responsibility

ALTERNATIVES TO BALANCE OFF SHIFTING MEDICAID TO FULL FEDERAL RESPONSIBILITY

MEDICAID:	FY80	FY81
	(in thousands)	
STATE SHARE:	$11,230,856	$12,794,602

PROGRAM CLUSTERS	I FY80	I FY81 Est.	II FY80	II FY81 Est.	III FY80	III FY81 Est.	IV FY80	IV FY81
Social Services (12 programs)	$3,113,758	$3,310,012	$3,113,758	$3,310,012	$3,113,758	$3,310,012	$3,113,758	$3,310,012
Food and Nutrition - less Food Stamps (13)	$4,971,589	$5,401,065						
Education I - Grants for Ed. Deprived (1)			$2,630,022	$2,841,168			$2,630,022	$2,841,168
Education II - Elem., Sec., Higher, Voc., and Other less Ed. Clusters I and III (26)	$1,896,684	$1,634,875	$1,896,684	$1,634,875	$1,896,684	$1,634,875	$1,896,684	$1,634,875
Education III - Elem. and and Sec. Mandate Related (17)	$2,447,111	$2,685,585	$2,447,111	$2,685,585	$2,447,111	$2,685,585	$2,447,111	$2,685,585
Highways I - Interstate (2)								
Highways II - Primary (1)								
Highways III - Secondary, Urban and Other (27)			$3,592,987	$3,772,800	$3,592,987	$3,772,800		
Medical Assistance I - Medical Services and Centers (25)	$1,462,081	$1,573,983			$1,462,081	$1,573,983	$1,462,081	$1,573,983
Medical Assistance II - Community Health Ed. (6)	$324,726	$339,086			$324,726	$339,086	$324,726	$339,086
Medical Assistance III - Professional Training and Administration (12)								
Criminal Justice (3)			$444,781	$127,175	$444,781	$127,175	$444,781	$127,175
TOTAL COST:	$14,215,949	$14,944,606	$14,125,343	$14,371,615	$13,282,128	$13,443,516	$12,319,163	$12,511,884
TOTAL # OF PROGRAMS:	(99)		(86)		(116)		(90)	

SOCIAL SERVICES

Prog. #	Program Name	FY80	FY81 Est.
		(in thousands)	
13.642	Social Services (Title XX), fg (except Child Care) (s)	$2,697,000	$2,500,000
13.679	Child Support Enforcement, fg, services (s)	360,000	310,000
13.633	Aging Assistance, fg (s)	22,500	27,675
13.644	Public Assistance Training (Title XX), fg (s)	75,000	116,000
13.645	Child Welfare Services, fg (p,pr)	56,500	56,500
13.810	Public Assistance Training, fg (s)	27,000	29,300
13.634	Aging Services, pg, c (s,l,p,pr)	25,000	25,000
13.637	Aging, Training Workers, pg, c (s,l,p,pr)	17,000	17,000
13.623	Runaway Youth Facilities, pg (s,l,p,pr)	11,000	11,000
72.008	Senior Companion Program, pg (s,l,p,pr)	10,200	12,783
13.648	Child Welfare Services and Training, pg (p,pr)	7,575	7,000
72.010	Anti-Poverty Mini-Grants for Volunteer Programs, pg (s,l,p,pr)	1,237	1,500

TOTAL NUMBER OF PROGRAMS: 12 TOTAL COST: $3,113,758 $3,310,012

FOOD AND NUTRITION - LESS FOOD STAMPS

Prog. #	Program Name	FY80	FY81 Est.
10.555	School Lunch, sales, exchange (s,p,pr)	$2,301,100	$2,485,400
10.550	Surplus Food Distribution, sale, exchange (s)	982,851	1,035,093
10.557	Special Supplemental Food for Women & Children, pg (1)	768,000	900,000
13.653	Nutrition for the Aging - fg (**)	254,546	254,546*
10.553	School Breakfasts - Grants to States, fg, sale, exchange (s,pr)	279,800	315,300
10.550	Child Care, Food, fg, sale, exchange (s)	75	50
10.559	Summer Food for Children, fg (s)	126,800	148,500
10.560	Child Nutrition, State Expenses, fg (s)	34,867	38,226
10.556	Milk for Children, fg (s,p,pr)	153,800	166,200
10.554	Equipment for School Food Services, fg (s,p,pr)	20,000	15,000
10.564	Nutrition, Education and Training, fg (s)	20,000	15,000
10.563	Nutrition Education, pg (**)	1,750	1,750
49.005	Community Food and Nutrition, pg (s,l,p,pr)	28,000	26,000

TOTAL NUMBER OF PROGRAMS: 13 TOTAL COST: $4,971,589 $5,401,065

Source: 1980 Catalog of Federal Domestic Assistance, OMB

c = contract
fg = formula grant
dl = direct loans
pg = project grant
s = state eligibility
l = local agency eligibility
p = public organization eligibility
pr = private non-profit institution eligibility
* = FY80 funding estimate
** = no eligibility information available

EDUCATION

Education Programs I: Grants for Educationally Deprived Children

Prog. #	Program Name	FY80	FY81 Est.
		(in thousands)	
13.428	Grants for Educationally Deprived Children, fg (s)	$2,630,022	$2,841,168
	TOTAL NUMBER OF PROGRAMS: 1 — TOTAL COST:	$2,630,022	$2,841,168

Education Programs II: Elementary, Secondary, Higher, Vocational and Other Less Education Program Clusters I and III

Prog. #	Program Name	FY80	FY81 Est.
13.478	Federal Impact School Aid, fg (1)	$772,000	$450,298
13.571	Local Education Improvement, fg (s)	197,400	146,400
13.431	Education of Children in State Institutions, fg (s)	37,657	36,750
13.533	Right to Read, pg (**)	35,000	35,000*
13.577	Guidance Counseling & Testing in Elementary and Secondary Schools, fg (s)	18,000	18,000
13.013	Appalachian Child Development - pg (**)	10,000	10,000*
45.127	Humanities Promotion in Elem. & Sec. Education, pg (s,p,pr)	4,500	4,500
13.562	Education of Gifted Youth, pg, c (s,l,p,pr)	6,280	6,280
13.566	Art Education in Elem. & Sec. Schools, pg (s,l,p,pr)	1,250	3,500
13.400	Adult Education, fg (s)	100,000	100,000
10.882	Higher Ed. Land Grants, pg (s)	11,500	11,500
13.518	Higher Ed. Equipment, pg (**)	7,500	7,500*
45.111	Humanities Promotion in Higher Ed., pg (p,pr)	5,000	5,500
45.139	Humanities Promotion in Higher Ed., pg (p,pr)	4,400	4,400
45.138	Humanities Promotion in Higher Ed., pg (p,pr)	2,000	2,250
13.455	Higher Ed. Academic Facilities, fg (**)	500	500*
13.493	Vocational Education, Basic Grants to States, fg (s)	474,766	562,266
13.495	Vocational Education, fg (s)	112,317	124,817
13.494	Consumer and Homemaking Education, fg (s)	43,497	43,497
13.489	Teacher Corps, pg (l,p)	30,000	37,500
13.416	Teacher Centers Inservice Training, pg (l,p,pr)	13,000	14,300
13.500	Environmental Education, pg (**)	3,500	3,500*
13.564	Consumer Education, pg, c (s,l,p,pr)	3,617	3,617
13.581	Citizen Education, Cultural, pg, c (s,l,p,pr)	2,000	2,000
13.680	Telecommunication for Delivering Health, Education and Social Services, pg (s,l,p,pr)	1,000	1,000
	TOTAL NUMBER OF PROGRAMS: 26 — TOTAL COST:	$1,896,684	$1,634,875

Source: 1980 Catalog of Federal Domestic Assistance, OMB

EDUCATION

Education Progams III: Elementary and Secondary - Mandate Related

Prog. #	Program Name	FY80	FY81 Est.
		(in thousands)	
13.449	Education of Handicapped Children, fg (s)	$804,000	$874,000
13.600	Head Start, pg, services (1,pr)	735,000	825,000
13.429	Education of Migrant Children, fg (s)	249,806	266,112
13.529	Emergency School Aid for Minority Children, pg (p,pr)	5,000	15,000
13.427	Education for Handicapped Children, fg (s,1)	147,851	156,761
13.525	Emergency School Aid for Minorities, pg (1)	118,800	118,800
13.532	Elementary and Secondary School Minority Aid, pg (s,1,p,pr)	95,769	97,812
13.495	Civil Rights Technical Assistance for Schools, grants (s)	112,317	124,817
13.430	Disadvantaged Children Education Aid, fg (s)	48,508	50,218
13.630	Development Disabilities Services, fg (s)	50,680	50,681
13.534	Indian Education, fg (1)	47,273	69,270
13.535	Indian Education, pg (s,1)	12,500	12,500
13.530	Educational TV for Minorities, pg (p,pr)	6,450	9,858
13.631	Developmental Disabilities, pg (s,1,p,pr)	4,757	4,756
13.568	Education for Severely Handicapped, pg, c (s,1,p,pr)	5,000	5,000
13.560	Regional Ed. for Deaf or other Handicapped, pg, c (p,pr)	2,400	4,000
13.452	Handicapped Teacher Recruitment and Information, pg, c (s,1,p,pr)	1,000	1,000
	TOTAL NUMBER OF PROGRAMS: 17 TOTAL COST:	$2,447,111	$2,685,585

Source: 1980 Catalog of Federal Domestic Assistance, OMB

HIGHWAYS

Highway Programs I: Interstate

Prog. #	Program Name	FY80 (in thousands)	FY81 Est.
20.205	Interstate Construction and 4R, pg,fg (s)	$3,379,600	$3,960,000
	TOTAL NUMBER OF PROGRAMS: 2 TOTAL COST:	$3,379,600	$3,960,000

Highway Programs II: Primary

Prog. #	Program Name	FY80	Est. FY81
20.205	Primary Highways, pg, fg, (s)	$1,604,700	$1,650,000
	TOTAL NUMBER OF PROGRAMS: 1 TOTAL COST:	$1,604,700	$1,650,000

Highways Programs III: Secondary, Urban, and Other

Prog. #	Program Name	FY80	Est. FY81
20.205	Federal-aid Highways, pg, fg (s)	$3,091,900	$3,340,100
	Rural and Small Urban	(772,900)	(776,700)
	Urbanized Area	(734,000)	(714,000)
	Bridge Construction	(773,000)	(950,000)
	Safety	(340,200)	(470,000)
	Other	(471,800)	(429,400)
	Motor Carrier Safety	11,600	17,400
	Highway Beautification	8,800	6,900
	Territorial Highways	6,700	6,600
	Railroad-Highway Crossings demon. proj.	18,900	43,000
	National Scenic and Recreational Highway	26,600	43,000
	Safer off-system roads	59,400	4,700
	Access Highways to Lakes	9,700	18,100
	Highway-Related Safety Grants	28,000	28,000
	Highway Safety Research and Development	8,700	9,900
	Overseas Highway	25,000	10,300
	Miscellaneous Items (approx. 9 programs)	68,700	22,700
23.003	Appalachian Highway Development, pg (s)	202,953	215,000
23.008	Appalachian Access Road, pg (s)	25,536	12,000
23.017	Appalachian Special Transportation Planning, Research, and Demonstration, pg (s,l,p,pr)	498	600
	TOTAL NUMBER OF PROGRAMS: 27 TOTAL COST:	$3,592,987	$3,772,800

Source: Carter Budget for FY82 & 1980 Catalog of Federal Domestic Assistance, OMB

MEDICAL ASSISTANCE

Medical Assistance Programs I: Medical Services and Centers

Prog. #	Program Name	FY80 (in thousands)	FY81 Est. (in thousands)
13.244	Community Health Centers, pg, (s,l,p,pr)	$320,000	$374,400
13.232	Maternal and Child Health Services, pg, fg (s)	243,800	254,800
13.295	Community Mental Health Centers, pg (p,pr)	256,895	251,360
13.256	Health Maintenance Organizations, pg, dl (p,pr)	107,000	155,000
13.211	Crippled Children Services, pg, fg (s)	102,100	105,700
13.268	Disease Control, pg (s)	24,532	24,132
13.252	Alcoholism Treatment and Rehabilitation, pg, c (p,pr)	60,815	72,090
13.257	Alcohol Abuse, fg (s)	54,800	54,800*
13.210	Public Health Service, fg (s)	68,000	68,000*
13.269	Drug Abuse, fg (s)	38,000	38,000*
13.887	Medical Facilities Construction, pg (s,l,p,pr)	23,735	23,735*
13.284	Emergency Medical Services, pg (s,l,p,pr)	36,625	26,500
23.004	Appalachian Health, pg (s)	26,450	16,950
64.015	Veterans State Nursing Home Care, fg (s)	22,485	27,973
13.259	Mental Health, Children's Services, pg (**)	14,830	14,830*
13.882	Hypertension Treatment, pg (s)	20,000	20,000
13.290	Community Care for Alcoholism, Uniform Act, pg (s)	11,119	7,884
13.280	Drug Abuse, Clinical and Service Related, pg, c (p,pr)	3,417	2,496
64.005	State Nursing Home Care for Veterans, constr., pg (s)	6,573	13,800
13.254	Drug Abuse, pg, c (p,pr)	3,605	3,605*
64.016	Veterans State Hospital, fg (s)	4,598	5,226
13.296	Hemophilia Diagnostic Treatment Centers, pg (s,l,p,pr)	3,000	3,000
13.292	Sudden Infant Death Information and Counseling, pg (p,pr)	2,802	2,802
13.237	Medical Health Hospital Improvement, pg (**)	1,900	1,900*
13.888	Home Health Services and Training, pg (s,l,p,pr)	5,000	5,000*
	TOTAL NUMBER OF PROGRAMS: 25 — TOTAL COST:	$1,462,081	$1,573,983

Medical Assistance Programs II: Community Health Education

Prog. #	Progam Name	FY80 (in thousands)	FY81 Est. (in thousands)
13.235	Drug Abuse Community Service, pg, c (p,pr)	$142,098	$142,098
13.217	Family Planning, pg (s,l,pr)	157,235	165,000
13.275	Drug Abuse Education, pg, c (p,pr)	8,320	12,533
13.890	Genetic Disease Testing and Counseling, pg (s,l,p,pr)	8,000	8,200
13.899	Alcohol Abuse Prevention Demonstration, pg (p,pr)	6,073	8,255
13.420	Alcohol and Drug Abuse Education, pg (s,p,pr)	3,000	3,000
	TOTAL NUMBER OF PROGRAMS: 6 — TOTAL COST:	$324,726	$339,086

Source: 1980 Catalog of Federal Domestic Assistance, OMB

MEDICAL ASSISTANCE

Medical Assistance Programs III: Professional Training and Administration

Prog. #	Program Name	FY80	FY81 Est.
		(in thousands)	
13.244	Mental Health Clinical and Service Training, pg (s,l,p,pr)	$71,663	$71,663
13.777	State Health Care Survey Certification, pg, fg (s)	69,645	65,900
13.775	State Medical Fraud Control, fg (s)	40,660	43,890
13.379	Family Medicine Graduate Training, pg (p,pr)	26,450	36,000
13.822	Health Careers Opportunity, pg (p,pr)	19,568	22,392
13.298	Nurse Practitioner Training, pg (s,l,p,pr)	13,000	17,000
13.886	Physician Assistant Training, pg (s,l,pr)	9,100	7,500
13.363	Nursing Scholarships, pg (p,pr)	9,000	9,000*
13.381	Health Professions Financial Distress of Schools, pg (p,pr)	5,000	9,200
13.274	Alcohol Clinical Service and Training, pg (p,pr)	5,178	3,756
13.287	Emergency Medical Services Training, pg (p,pr)	3,000	3,000*
13.238	Mental Health Hospital Staff Development, pg (**)	325	325*
	TOTAL NUMBER OF PROGRAMS: 12 TOTAL COST:	$272,589	$289,626

CRIMINAL JUSTICE

Prog. #	Program Name	FY80	FY81 Est.
	Law Enforcement Assistance	$444,781	$127,175
	TOTAL NUMBER OF PROGRAMS: Approx. 3 TOTAL COST:	$444,781	$127,175

Source: For Medical Assistance: 1980 Catalog of Federal Domestic Assistance, OMB
For Criminal Justice: FY82 Reagan Budget Revisions, March 1981

BLOCK GRANTS AND THE INTERGOVERNMENTAL SYSTEM

WEDNESDAY, JULY 22, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS AND
INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 1:35 p.m., in room H-236, the Capitol, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Present: Representative Hamilton.

Also present: James K. Galbraith, executive director; and Mary E. Eccles, Kent H. Hughes, William Keyes, Deborah Matz, Michael Nardone, and Mark R. Policinski, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, CHAIRMAN

Representative HAMILTON. The subcommittee will come to order.

I would like to welcome the representatives of the major State and local government public interest groups, who are here today to discuss block grants and the outlook for the intergovernmental system.

As you are all aware, the block grant proposals adopted by the House and the Senate during the budget reconciliation process are presently being considered by the various conference subcommittees. While some of the details still remain to be worked out, there is little doubt that many of the existing categorical programs will be folded into block grants for health, social services, energy, and education. In addition, the scope of the community development block grant program will be significantly expanded.

In a hearing before this subcommittee last week, a panel of academic witnesses, with diverse views on the merits of the block grant concept, agreed that while block grants reduce redtape and duplication, they also reduce accountability and will likely increase administrative costs. They agreed as well that there will be wide divergence among States in the degree of targeting to those in need and the administrative capability to implement the programs.

As representatives of State and local officials, I think your views on these issues are especially important. In particular, I am hoping that today we can discuss whether, in your opinion, States are prepared to assume the responsibility of administering block grants, how programs and recipients are likely to be affected, what effect consolidation will have to State and local government staffing and budgets.

In addition, I am interested in knowing how large a cut you feel can readily be absorbed through consolidation and how long a transition you feel is necessary. Finally, I hope you will address what I consider to be the fundamental question underlying the block grant debate: What is the proper role of Federal, State, and local governments?

At this point I would like to mention that Senator Paula Hawkins, who had planned to be with us today, will be unable to attend because of conflicting schedules. However, she has requested that her opening statement be entered into the record, which I will do at this time, without objection.

[The opening statement of Hon. Paula Hawkins follows:]

Opening Statement of Senator Hawkins

Mr. Chairman, block grants are a first step in devolving appropriate authority and responsibility to State and local governments, the levels of government closest to the people.

The concept of block grants is not a new one. The Congress has enacted block grants legislation in the areas of health, social services, community development, employment and training, and law enforcement during the last couple of decades. Congress is now undertaking an effort to make block grants a more comprehensive aspect of the national budget. Congress, in other words, is taking steps to cut administrative overhead costs, without sacrificing necessary programs.

It is the feeling of many who occupy the various State houses of this Nation that the block-grants concept is an idea whose time has come. No longer are the elected representatives closest to the people willing to listen to the argument that the Federal Government is best equipped to meet the needs of the people. Furthermore, the people of this Nation are no longer willing to accept the notion that the Federal Government is a fair and efficient dispenser of their tax dollars while the State governments necessarily are unfair and ineffective at meeting the needs of the people.

A major concern, however, is with State accountability to local governments. States must assure local governments that allocations to local governments are fair and equitable and that effective programs are continued.

Numerous State task forces—in such States as Colorado, Virginia, South Carolina, and Maine—are working on the implementation of block grant programs. Implementation must be a cooperative effort: People in local governments must be willing to work with people in State governments, and people in State governments must be willing to work with people in local governments.

Representative Hamilton. We welcome the following witnesses: Alan Beals, National League of Cities; Stephen B. Farber, National Governors' Association; Ronald F. Gibbs, National Association of Counties; John J. Gunther, U.S. Conference of Mayors; Representative John Thomas, National Conference of State Legislatures' Executive Committee; and Frank G. Tsutras, Congressional Rural Caucus.

We are delighted to have each one of you here. What I would like for you to do is to begin with an opening statement of fairly brief length, maybe 5 minutes or so, summarizing your points. Your prepared statements, of course, will be entered into the record in full. Then we will have some questions for you.

I think we will just go right down the line from left to right. Mr. Tsutras, you can begin, if you would.

STATEMENT OF FRANK G. TSUTRAS, DIRECTOR, CONGRESSIONAL RURAL CAUCUS

Mr. Tsutras. Mr. Chairman, I appreciate very much the opportunity to participate with the people who are present here today, all of whom are members of the congressional rural caucus advisory team.

I would like to also state that for the record, some of the things I might say or some of the things which are included in my prepared statement do not necessarily mean a position statement on the part of the congressional rural caucus because of the diversity of the opinions and feelings among my own members.

Very simply stated, one of the major concerns among those who are concerned with small cities and rural areas is that they fear the absence of fairness and equity in the allocation and distribution of grants as well as other Federal dollars which are being administered either at the Federal or other levels beyond the Federal establishment.

The second point which has been discussed on several occasions involves the question of accountability. The accountability on the part of those who will continue to receive billions of Federal dollars without any specific guidelines, direction, control or supervision, is a question which is of concern to many people in small cities and rural areas.

The third item in which the congressional rural caucus chairman, Congressman Wes Watkins, wants to pursue is a provision whereby not less than 30 percent of those funds appropriated for such purposes would be available only in nonmetropolitan, small cities or rural areas, which means that smaller cities and rural areas of the country would not have to compete with the larger cities and urban areas of the country for a fair and equitable share of the Federal dollars.

The relationship between the agencies at the Federal level and the States and the non-Federal entities within the States is something that will have to be considered over a period of time. Some of the specific conclusions in my prepared statement I will not repeat other than to say that there is a strong feeling that the Congress should have been able to spend more time on an evaluation and comparison of the reasons why possibly categorical grants did not perform well as compared to a block grant concept which was imposed during the last several months.

We welcome the opportunity to also state that title XVI in the reconciliation measure is something we would like to see stay in the conference that takes place on the budget reconciliation.

Finally, whether there be agreement or disagreement on the part of those of us who are here today, I would state that the members of the congressional rural caucus down the line welcome the opportunity to work with the administration and States, counties, cities, and other officials to make sure that whatever takes place becomes a successful methodology to make sure that small cities and rural areas are treated fairly and equitably. Thank you.

[The prepared statement of Mr. Tsutras follows:]

Prepared Statement of Frank G. Tsutras

A. Opening Comments

Mr. Chairman, I am Frank G. Tsutras, Director of the Congressional Rural Caucas, a legislative support organization of the United States House of Representatives, comprised of approximately 150 bipartisan Members of Congress, including 2 members of the United States Senate. Our major concern is the orderly growth and development of small cities and rural areas.

I am pleased to note that, in addition to you, there are three (3) other members of the Joint Economic Committee who are also CRC members: Richard Bolling of Missouri, Gillis W. Long of Louisiana, and Frederick W. Richmond of New York. Senator James Abdnor of South Dakota was a member of the CRC during his House tenure

For the record, I have served as Director of the CFR since its inception during 1973-1981; 1972-1973, Special Assistant to Congressman Gillis Long of Louisiana and Congressman L. A. "Skip" Bafalis of Florida, specializing in public works and economic development; 1965-1972, Administrative Assistant to Congressman James Kee from my home State of West Virginia; 1961-1965, Field Coordinator for Southern West Virginia with the Area Redevelopment Administration (U.S. Department of Commerce): and 1958-1961, Managing Director, Tug Valley Chamber of Commerce in my home town of Williamson, Mingo County, West Virginia. In all, I have a total of approximately 25 years experience in community, economic, social, and rural development from the "grass roots" to the Congressional level.

This is not an official CRC position statement and it does not necessarily reflect the opinions or consensus of the CRC Executive Committee and/or the CRC members. The contents are to be used as "food for thought" in a dialogue concerning the Reagan Administration block grant concepts.

This statement contains selected comments from several sources, including the CRC, CRC Advisory Team, Ad Hoc Coalition on Block Grants, Rural Coalition, National Rural Center, League of Women Voters, Rural America, Housing Assistance Council, National Education Association, National Rural Housing Coalition, National Urban League, and other groups. As Director of the CRC, I personally share and concur in practically all the concerns expressed by the foregoing sources.

As Director of the CRC, I shall, and must, adhere to reporting in such manner as to insure and respect the integrity and positions of my members from both sides of the aisle.

B. PURPOSE OF HEARING

In your letter of inviation, six (6) specific concerns were expressed for our discussion today; (1) the potential effect of block grants on the intergovernmental system; (2) the ability of States to administer block grant programs; (3) the impact on programs and recipients; (4) the effects on State and local governments staffing and budgets; (5) the size of cut which can be absorbed; and (6) the transition period required. The following brief comments are offered at this time:

1. The proposed block grants, at the time, will have a shocking and frustrating effect on the relationship between the Federal and non-Federal systems.
2. Several rural advocates feel that the States and non-Federal entities are not ready, at this time, to assume the responsibility for administering block grants.
3. The immediate impact of block grants on existing, revised, and new programs and recipients will be determined on a State by State, case by case, basis, reflecting the ability or inability of such entity to respond to such programs.
4. The effects on State and other non-Federal entity staffing and budgets will be two-fold; (a) staffing may be difficult because some entities may not be able to, or may not want to, pay the price for adequate qualified staff; (b) existing budgets will be increased substantially to provide those resources required to administer such programs; and (c) in certain States some programs may not even be continued or activated.
5. The size of budget cuts to be absorbed by consolidation will be determined on a State by State, case by case, basis, reflecting the ability or inability of such entity to assume or offset such cuts.
6. A personal preference for transition would have been a gradual phase—in over a period of not more than two (2) years. The haphazard manner in which the block grants have been presented will be tempered by the statutory situation in each State and the ability of each entity to adjust and implement accordingly.

C. REAGAN ADMINISTRATION BUDGET PHILOSOPHY AND BLOCK GRANTS

The following statements are in pages 6-8, Fiscal Year 1982 Budget Revisions, Additional Details on Budget Savings, Executive Office of the President, Office of Management and Budget, 7 April 1981.

"The President decided that achievement of his budget targets will require an end to the proliferation of new Federal programs and a reversal of the trend toward greater Federal roles in planning and controlling economic and social decisions."

"He directed that all Federal programs be subjected to thorough scrutiny. . . ."

"Large numbers of categorical grants must be consolidated into block grants permitting less Federal administrative overhead, greater flexibility for State and local governments, greater efficiency in management and reduced overall costs. The principal elements are elementary and secondary education, and health and social services." (Note: Community development and energy were added later.)

"When the budget was reviewed, a large amount of information about existing programs was assembled and used in making decisions on proposed revisions. . . ."

D. OVERVIEW OF FEDERAL RESPONSIBILITY AND ACCOUNTABILITY

As we examine the block grant concept, a question arises as to why the categorical grants ever come into existence. One answer is that, at a given time, the States and non-Federal entities lacked the ability, desire, initiative, or financial resources to respond to local needs and problems which became national in scope.

There are those who feel that we may end up "later" back where we were "earlier". . . . in other words, back to some type of categorical grant.

The Congress is working on the final legislative details to turn over billions of Federal tax dollars to the States and local entities for block grant programs.

Federal tax requirements were imposed on Federal tax payers by the Congress via Federal statutes resulting from the Federal legislative process and collected by the Federal Executive Branch. The authority to tax and collect such dollars is essential to the ability of the Federal government to identify and respond to national problems and solutions to assist non-Federal entities at the State, County, City, Town, and Local governmental and non-governmental levels.

This is basic to the authorization, budgetary, and appropriations process between the Federal Executive and Legislative Branches.

The time period within which, and the manner in which, the block grant concept has been proposed is of major concern to those who will disburse and receive funds because no one has really presented or explained the specific details for the actual implementation of the block grants.

If anyone has done so, it is the best kept secret in Washington.

E. IMPACT ON SMALL CITIES AND RURAL AREAS

The Ad Hoc Coalition on Block Grants, involving approximately 100 national organizations concerned with the potential adverse impact of block grants on low income and disadvantaged residents throughout the nation, prepared a Block Grant Briefing Book which covered past experience, the Reagan proposals and their implications, the impact of the proposals, key issues, and press clips.

Whether one agrees or disagrees with the report, it contains an excellent compilation of facts, figures, and comments on the proposed block grant concept. Those who put it together include several rural advocates who have concentrated on the needs of low income people. The following comments are listed for your information and consideration:

1. Deep concern is expressed over the potential devastating consequences of the Administration's block grant proposals.
2. Turning less money over to the States without clear priorities, direction, strategies, and effective reporting and auditing requirements will undermine national goals in health, education, social services, community development, and energy.
3. Less will go to those in genuine need.
4. A brutal political struggle could take place at the State level where the most vulnerable and those without clout are almost certain losers.
5. The proposals repeal landmark legislation, eliminate essential programs, undermine principles of fiscal accountability, and lay the groundwork for confusion, neglect, and bureaucracy at the State level.
6. Untargeted, unmonitored, and unexamined block grants will mean far less assistance to those in need.
7. Administrative complaint procedures, entitlements, civil rights, application and targeting requirements, maintenance of effort, and citizen participation are just a few of the accountability tools to be considered for inclusion in this concept.
8. Administration proposals are the first step to do away with Federal action to address national human needs. President Reagan is quoted in The Washington Post on 10 March 1981 saying, "I think block grants are only the intermediate steps. I dream of the day when the Federal government can substitute for those the turning back to local and state governments the tax sources we ourselves have preempted here at the federal level so that you would have those tax sources."

(Note: The Reagan Administration now places the Congress in the role of a statutory Collector, Depositor, and Banker of Federal Tax Dollars, for and to the States, for the Receipt and Disbursement of Billions of Federal Tax Dollars Without Any Realistic Accountability for Such Funds.)

9. Without accountability, priorities, and direction, local needs will not be met.

10. Many States are unable to even assume the administrative responsibility for such services, in addition to a lack of planning and start-up time.
11. There is no firm estimate for State administrative and other costs. GAO is quoted as saying, ". . . administrative costs could increase as 50 state bureaucracies are established to administer the block grants."
12. The proposals will eliminate national constituencies, resulting in state groups which may be ineffective.
13. Individual Governors may be ineffective at the Federal level for future funding. Their respective legal terms in office may be a problem also.
14. Political pressures will influence allocation choices.
15. Non-Federal entities will experience staffing and budget problems.
16. State Legislatures will experience immediate statutory, budgetary, authorization, appropriation, and other problems peculiar to each State in its governmental and non-governmental entities.
17. Litigation and other legal challenges will, and must, be considered.
18. Implementation deadlines and differing fiscal years and other time factors may be serious elements to be considered.
19. Definitional problems must be resolved. What is one interpretation in one place may be entirely something else in another place.
20. Rural representation may be fragmented and weakened in the non-Federal structure, especially among minority groups. For example, low income and poor constituencies will not be able to compete with the more affluent and sophisticated constituencies.
21. The lobbying ability of big cities and urban areas at the State level will overwhelm small cities and rural areas.
22. Special emphasis programs and delivery services in low income programs will become distorted, resulting in a lack of access to such programs and services.
23. Special populations, regions, and certain rural area problems may result in lower, or no, priority in the block grant proposals. Need may not be a major consideration in some States.
24. Migrant farmworkers are concerned that their priority in one State may not be a major consideration in another State, resulting in disparity for proper and uniform action.
25. There is no guarantee of public hearings which are convenient and accessible to small cities and rural areas, especially since several such places do not have a local transportation system.

F. PARTISAN POLITICAL FOOD FOR THOUGHT

Based on the tremendous partisan political implications over the control, power, and money to be used in the block grant proposals, the following comments and questions are presented for consideration prior to, during, and after the approval and implementation of block grant "bank accounts" for the chief executive officers in the States and other non-Federal entities.

Such considerations now include the Federal bureaucracy as we know it in its existing form and structure. The major Federal agencies involved in existing categorical grant programs proposed for consolidation into block grant programs are HUD, H & HS, Education, and Energy, plus other agencies.

These agencies are responsible and accountable to the Congress for their actions and inactions. The 440 Members of the House and 100 Members of the Senate (as applicable) answer to their respective constituencies every two (2) years.

The Administration block grant concept will involve and include the Governors of 50 States, the District of Columbia, Guam, Virgin Islands, Puerto Rico, and the American Samoa with their respective personal staff; 50 State legislatures with approximately 7,500 State Legislators, their respective aides, and State agencies; well over 3,000 Counties or similar entities with over 10,000 County Commissioners and many more County officials; over 20,000 incorporated and unincorporated cities, towns, and places with and without their respective Mayors, Council Members, City Managers, Administrators, and local officials, totalling over 300,000 people.

It is bad enough that Federal officials can not track the end user of Federal funds. To do so under the proposed block grant concept will be another impossibility because Governors and other officials may not want to share much information with the Executive Branch and the Congress.

Federal agencies continue to remain in the dark on where States spend "pass through" funds. Ask the Federal Assistance Award Data System and Joint Funding Management Improvement Program staff to discuss some of their problems.

Let us assume that the transition has become a matter of fact. At the Federal level, staff should decrease. What happens to offices, equipment, machinery, supplies, contracts and subcontracts, computer systems, utilities, paper and other materials, and other such items? The Federal agencies use a postage privilege as a Federal agency.

Now the burden will shift to the States and non-Federal entities. First of all the privilege of paying the 18 cents postage rate with a potential higher rate later is to be considered as a major cost item. They also have to pick up the foregoing items on an increased or new basis, again adding to the cost factors.

Complicated? Yes, indeed. The Congress will still be responsible for the block grant transition cost factors to a certain extent via the usual authorization budget, and appropriations of Federal funds.

Let us assume again that a State is all set to go . . . the bank account is ready . . . all is in place . . . and the chief executive officer of the State or other non-Federal entity is ready to write checks to spend the funds.

What if the chief executive officer wants to be a Member of Congress? or the State Legislator wants to become Governor or a Member of Congress? or the County Commissioner wants to become a State Legislator, Governor or Member of Congress? or the big city Mayor or Council Member wants to become County Commissioner, State Legislator, Governor, or Member of Congress? or if anyone else who has the authority to write checks or influence projects has greater political ambitions?

Do you think, for one moment, that a Member of the House of Representatives or the Senate will ever really know what is going on in his or her Congressional District or State?

How can a Member of Congress fulfill his or her elected responsibility to a constituency from a Federal level when there could, and possibly will, be a void at the non-Federal level where no one, and I repeat, no one, really wants to or has to keep that Member of Congress apprised or informed of what is going on?

Not even the District Staff of a Member of Congress will know what is going on in the Member's District. In fact, there is reason to believe that such is or may be the case in certain Congressional Districts even now. Check it out to see!!!

In other words, a Member of Congress has to take into consideration the political realities and potential adverse impacts of placing himself or herself in the role of being a "banker" for someone who may never tell "you" how Federal funds are being spent—and where—in "your" Congressional District.

In any event, it sure is "food for thought".

G. SELECTED HARD CORE "ONE LINERS"

In the raging cotroversy over the Administration's budget philosophy and the block grant proposals, several schools of thought have emerged. The following are just a few of those which are provided for your information and consideration.

1. There is total agreement with the Administration proposals.
2. There is partial agreement with the Administration proposals.
3. There is conditional agreement with the Administration proposals. (Phase in over a two (2) years period. Let the States have all of it, including the responsibility to raise the tax revenue within the State.)
4. The Administration is, in essence, taking from the needy and giving to the greedy.
5. The Administration is signalling the beginning of the end for national domestic programs, services, funds, and solutions to national problems.
6. By succumbing to the Administration, the Congress has abdicated its legislative responsibilities to the Executive Branch.
7. Who is the Legislative voice of the people? The President? The Director of the Office of Management and Budget? Or the Congress?
8. If no one really cares for the people living in small cities and rural areas, then where do we go to surrender?

H. CONCLUSIONS

1. The Congress should thoroughly examine the strengths and weaknesses of the categorical and block grant programs and then evaluate and consider the impact of such proposals in meeting the needs of the people.
2. Block grants are not a step toward a new partnership between States and the Federal government to meet human needs, but an abandonment of Federal responsibility.
3. Block grants could spell disaster for many of the 69 million rural residents, and particularly for the 9 million poor people living in non-metropolitan communities.
4. There is an absence of any meaningful Administration emphasis on the problems and solutions for the poor, disadvantaged, migrant farmworkers, and other low income groups.

5. Rather than provide national solutions to national problems, the Administration prefers to "pass the buck" literally and fiscally to the States for 50 separate plans of action and/or inaction.

6. There must be a comprehensive modus operandi to insure and guarantee fairness and equity in the accessibility to and delivery of financial and other resources to the private and public sectors of small cities and rural areas.

7. Statutory, regulations, and other rules for such programs should specify that not less than 30 percent of the amounts appropriated for such block grant programs shall be made available only to non-metropolitan areas, small cities, and rural areas, as determined by OMB, or the agency in charge, after consultation with the Secretary of Agriculture, to determine if rural in character.

8. The Congress should, and must, establish statutory provisions to insure and guarantee that whoever assumes the responsibility for the administration and operation of the block grants should, and must, be accountable for such receipts and disbursement of Federal tax dollars.

9. State officials do not want or like to answer to Federal officials; County officials do not want or like to answer to State or Federal officials; Local officials do not want or like to answer to County, State, or Federal officials, therefore, consideration should, and must, be given to the respective role of each level of officials. If Federal tax dollars are to be allocated and distributed, then they should be allocated and distributed direct to each elected level of officials as appropriate. Entities not represented as such should be accommodated in a fair and equitable manner.

10. Whether there be agreement or disagreement in these and other matters, a positive attitude must prevail to guarantee the desired fairness and equity for block grant recipients and beneficiaries.

11. Conferees should keep title XVI—Block grants (pages 539-540) in H.R. 3982, Calendar No. 188, dated July 7, 1981, an act to provide for reconciliation pursuant to section 301 of the First Concurrent Resolution on the Budget for the Fiscal Year 1982 . . . This section covers distribution of block grant funds and reporting.

Note: This report is provided as a "food for thought" statement. It contains many pros and cons. We hope it has stimulated your personal interest in the block grant proposals, as well as the categorical grant process.

Representative HAMILTON. Thank you, Mr. Tsutras.

The bell has rung for the vote. If you will excuse me just a moment, I will respond to that vote and be right back. It shouldn't take more than a few minutes.

The subcommittee will stand in recess.

[A short recess was taken.]

Representative HAMILTON. We will resume our business. Mr. Gibbs from the National Association of Counties.

STATEMENT OF RONALD F. GIBBS, ASSOCIATE DIRECTOR, NATIONAL ASSOCIATION OF COUNTIES

Mr. GIBBS. I am pleased to be here. It is very timely that I am here to discuss the issue of block grants. We have just concluded our annual conference in Louisville. We have 4,000 county commissioners and the topic of the block grants and the new Reagan federalism were at the top of our list for discussion.

We support the concept of block grants as a means to achieve a shift and movement toward a new federalism. But, we are very concerned as to how the block grants are going to be designed and what the role for local governments is to be in those block grants.

Local governments are the governments of last resort. Forty percent of county budgets are made up of health and human services issues. The development of block grants may shift some of those costs to local governments. There are several conditions and points that I would like to put forth that our membership voted on in Louisville. We feel these principles must be integrated into the design and implementation of block grants.

First, county governments must be consulted. As currently designed, the States are given complete control with minimal consultation with local officials.

Second, there must be a reduction in mandates and regulations in that within the block grants. An example of a mandate would be the child welfare services legislation that passed Congress last year, if that is integrated into a block grant and mandated, we feel there must be funds tacked to that mandated legislation.

Third, there must be a transition period for the block grants. A minimum of 12 to 24 months is the minimum amount of time that we would support. Our opinion is that the phase-in of block grants has to be linked to the budget considerations of the State and local governments.

Fourth, we would oppose any direct shift in costs to local governments by the imposition of a block grant.

We would oppose block grants as a means of shifting costs to State and local governments without deregulating the system and allowing greater flexibility. We would seek in that regard to have a phase-in period during which regulations would be implemented to provide flexibility.

Fifth, concerning design and direct funding, local governments have to be integrated into the formula design at the State level and be integrated in the decisionmaking processes. We would support a passthrough provision if direct funding is not to be integrated into the block grant.

Sixth, we feel an administrative cap should be placed into the block grant. In some States, up to 60 or 70 percent of the money was used in administrative costs.

Seventh, concerning entitlement programs in relationship to block grants, it was a concern of the membership at our conference in Louisville that in the beginning stages of block grants, certain programs lend themselves to that type of design and others do not. We feel the Federal Government has to maintain a predominant role in establishing entitlement for AFDC and medicaid because local governments have no control over unemployment rates and therefore are going to be subject to these factors in providing AFDC and medicaid to the poor, the indigent, and the unemployed.

Lastly, on the issue of accepting any dollar reductions, we have opposed a reduction in the social services block grant program which has already been a block grant.

The title XX program has been a $3 billion program which has been level funded for the last several years. We are seeking to maintain that program at full funding and not to accept the 25-percent reduction.

In summary, our position is that we are looking at a partnership in the block grant process, that local governments are not at this juncture integrated into that process.

The legislation doesn't call for consultation with local elected officials, we feel that this is critical. We look at the community development block grant effort. There is a program where the consultative processes is in place and there are provisions for passthroughs to local governments.

We feel that this type of design should be integrated into the other block grant to assure that local governments are involved.

We are the government of last resort in providing care to the poor and indigent. In Louisville, block grants were a major concern to all of our membership. We would hope that in the final analysis in developing the block grants, local governments would be integrated into them for the purpose of consultation, planning, and budgeting.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Gibbs follows:]

PREPARED STATEMENT OF RONALD F. GIBBS

Mr. Chairman, members, I am Ron Gibbs, associate director for human resources, of the National Association of Counties (NACo),[1] I am pleased to present the views of the National Association of Counties on the important issues of block grants which confront all levels of government and which have especially critical implications for local governments operating the programs.

I would like to preface my remarks by saying that NACo supports consolidation of several categorical programs into block grants, and in fact most counties will welcome the greater flexibility and the opportunity to design programs to fit local needs. In addition, the National Association of Counties supports efforts to balance the Federal budget and has pledged to support spending reductions that do not shift costs to local governments.

It is at the local level where the challenges of spending reductions to balance the Federal budget and consolidating block grants threaten to undermine the network of life sustaining services that our citizens rely on. County officials who must raise the property taxes to support Federal, State, and local programs have a keen interest in reducing the cost of the services and at the same time preserving the safety net of critical services.

County governments across the Nation play an active role in most of the programs slated for inclusion in block grants, especially in human services programs—in providing the services, administering programs, and, in many States raising property tax revenues to pay the costs. The financing of most health and social services programs is a partnership between the Federal, State, and county governments.

For many counties, health and welfare costs account for more than 40 percent of the total county budget, which is made up entirely of property taxes.

So, counties have a real financial stake in the programs and, therefore, have good reason to support changes that make them less costly to operate. We favor block grants that leave decisions about programs to the local level where the services are delivered.

I want to highlight the fact that the needs of the people concern us as much as the need for administrative accountability and proper functioning of programs. We are concerned that the 25 percent spending reduction proposed for social services is so severe as to result in denying critical, life sustaining services to people.

Counties truly represent the government of last resort, the cutting edge against which the Nation's neediest people measure the willingness and capacity of their American Government to prevent hunger, insure adequate shelter and health care, provide jobs, and protect the helpless children and elderly in our midst. For these basic life-sustaining services country officials are held accountable. Within this context, we must concern ourselves with the cumulative effects of cuts contained within the block grant proposals, especially in the area of human resources.

A set of policy guidelines for block grants was adopted by the NACo membership:

First, a block grant to consolidate programs must be accompanied by an absolute reduction in Federal mandates and regulations.

An example of how this principle is not being followed is the inclusion of child welfare and foster care mandates within the social services block grant passed by the Senate. The Senate would mandate the implementation of new Federal program requirements not just without new Federal funds to accompany the program, but under reduced block grant funding.

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[1] NACo is the only national organization representing county government in America. Its membership includes urban, suburban, and rural counties joined together for the common purpose of strengthening county government to meet the needs of all Americans. By virtue of a county's membership, all its elected and appointed officials become participants in an organization dedicated to the following goals: Improving county government; serving as the national spokesman for county government; acting as liaison between the Nation's counties and other levels of government; and, achieving public understanding of the role of counties in federal system.

There must be a reasonable transition period to allow States and counties to make the necessary legal adjustments and to consolidate programs, services, and fiscal resources, before funding is reduced. For most programs, a minimum period of 12 to 24 months would be needed for orderly transition. The differing budget cycles and State legislative sessions make immediate adjustment to block grants impossible. In most cases, counties operating programs will have to wait for State enabling legislation.

A block grant or other spending reduction cannot serve merely to shift costs from the Federal Treasury to State and local taxpayers. NACo will vigorously oppose any such shifting. Federal block grant funds should be allocated directly to general purpose local governments where an existing service delivery system is in place.

There must be provisions to assure passthrough of funds to counties that operate the programs, in order to preserve the safety net of life-sustaining services that counties must operate. To further assure that block grant funds are available for local service delivery, there should be a cap on the amount the States can retain for administrative costs, such as the 10 percent limit provided in the Senate passed health block grants.

Further, NACo policy specifies that there should be no matching requirements, maintenance of effort, or earmarking of funds within block grants. Most of the block grant proposals in the reconciliation bills violate some or all of these principles—again, notably the child welfare provisions of the Senate block grant, which earmarks and requires maintenance of effort, as well as mandating new services.

Finally, NACo opposes block grants for entitlement programs such as AFDC, food stamps, and medicaid, and believes that the Federal Government should continue to maintain primary resonsibility for the problems of income maintenance, which are more national in character.

In addition to these criteria, we are concerned about the rationale or basis for the administration's assumption that proposed block grants would reduce costs by 25 percent. If that figure is not realistic—and we have no reason to think it is—then I am forced to conclude that the effect would be to shift costs for essential social services to county governments, which President Reagan pledged not to do. Many critical services that would be affected are already "bare bones" programs at the county level, where severe funding reductions can only hurt vulnerable people whose "safety net" will be stretched too thin to protect them. Preserving this safety net of services in the face of inflation should remain a responsibility shared by the Federal Government.

With respect to title XX, the proposed 25-percent reduction is particularly untenable. Title XX programs were block granted 10 years ago, and due to the eroding effects of inflation, we are now trying to provide the same servcies to more people with diminished dollars. In most countries, the services are already reduced to those of the most essential nature, such as services for people who depend on a caretaker to help keep them from living in an institution, and people who abuse their children and want help to become adequate parents, and the children who are the victims.

For those children, we looked forward to new Federal support authorized under H.R. 3434 last yer to augment the thin layer of services we provide under title XX. Yet, NACo has taken the postion that if either title XX or the new Public Law 92-272 is not fully funded we must oppose any mandate to implement to those child welfare, foster care, and adoption reforms which we strongly supported in the interests of the Nation's children. We would simply not be able to put those into place at the county level without funding. (As I have pointed out, the Senate bill requires the implementation without funding, while the House bill by retaining current law, would provide the funds necessary to implement the new reforms.)

Mr. Chairman, a further comment about the nature of block grants: As we have seen so graphically over the years with title XX services, there is a tendency for the financing of the programs to shrink as Congress loses sight of exactly what the services are accomplishing, and for Congress to view the programs as less important or perhaps less effective than the categorical services and programs they replaced. We suggest that Congress needs to devise a means of keeping oversights on the effectiveness of the programs, so that all levels of government can be assured that the public's money is indeed going for its intended purposes, and that meeting the life-sustaining needs of its citizens will remain a willing, rewarding commitment for government.

The need for provisions to assure that block grant funds indeed reach the level of service delivery was reinforced by findings of the Advisory Commission on Intergovernmental Relations (ACIR), whose spokesman testified before your committee that block grant funds given first to States tend to lose their block grant features before they reach the local level, and to get "recategorized" in the process.

Counties in Minnesota operate social services under a block grant concept and their experience indicates that a firm and clear understanding between the counties and the State legislature as to what exactly is the role of the counties in the block grant process is the key ingredient to their success so far. The success of the block grant is due to close involvement of the elected county officials in the development of the block grant, and the certainty that social services program and funding decisions are to be made at the local level, without interference or direction from the State. In Minnesota, county officials will take the heat for program reductions, but they are free to make the choices best suited to the needs of their local citizens. This local decisionmaking needs to be assured in Federal block grant legislation.

In closing, Mr. Chairman, we understand and support the fact that progams must be made less costly where possible, and view block grant consolidation of small categorical programs as a means of accomplishing some savings. We support changes that will bring about administrative efficiency and oppose modifications that will shift a disproportionate share of costs to county governments, and we oppose hasty program modifications that will unduly burden the poor and the elderly in this county.

Thank you for the opportunity to present our views.

Representative HAMILTON. Thank you, Mr. Gibbs. Mr. Beals, from the National League of Cities.

STATEMENT OF ALAN BEALS, EXECUTIVE DIRECTOR, NATIONAL LEAGUE OF CITIES

Mr. BEALS. Thank you very much, Mr. Chairman.

The National League of Cities very strongly supports the block grant concept. Its advantages, we feel, in terms of the ability of the recipient to shift funds from one use to another to meet changing local needs, cannot be denied. When local formula funding is introduced, the predictability and certainty of funding adds an additional critical advantage. Our experience as local officials with one block grant—the community development block grant enacted in 1974—bears out the validity of the concept.

Before HUD's community development programs were block granted, a city had to apply separately for urban renewal, model cities, neighborhood facilities, rehabilitation, open space, water and sewer, and advance acquisition of land grants. Each program had its own funding sources, its own application requirements, its own matching requirements, and most importantly, its own regulatory requirements. No city could be assured of a grant in any program in any year, let alone how much in grant funds it could reasonably count on for the next and following years.

Under the block grant, every city of 50,000 population or more knows generally what it will receive for 3 years. It is allowed to use the funds in any combination it desires consistent with its 3-year plan and Congress national objectives for community development. It may shift funds from one activity to another as local needs dictate. Significantly, even cities of less than 50,000 population, which do not receive assured multiyear funding, enjoy all of these important advantages.

I think that this is an excellent place to clarify a key point of confusion in most black grant discussions. The validity of block grants—in which programs similar in nature and in type of recipients are consolidated into one broad authority—does not depend on funding levels. Flexibility for grant recipients to meet shifting local needs should be considered a key element in any grant program, whether it is funded at $100 million or $1 billion. The amount of funding is a separate decision and in most cases is irrelevant to the block grant concept.

One final advantage of block grants that is often overlooked: The benefits to the Congress itself. As you know, during the past two decades, hundreds of categorical grant programs have been created, ranging in size from programs that dispense a few million dollars, like HUD's neighborhood self-help program, to those that annually distribute billions of dollars, like the EPA waste water treatment construction program.

For each of these programs, Congress must extend authorizations—for many, annually—appropriate funds, amend basic laws, review executive branch regulations, and carry out necessary oversight activities. We believe it is foolhardy to believe that Congress can do this job adequately for hundreds of programs, let alone have the time to identify and begin to deal with the emerging problems.

A comprehensive move toward block grants can help change this to some extent. There is little doubt that the House and Senate Banking Committees are better able to review and evaluate HUD's major development assistance activity, the block grant program, than they were to review and evaluate urban renewal, model cities, water and sewer grants, and all the rest. The savings in Members' time and effort have been substantial and have resulted in more meaningful oversight, better legislation, and a more effective aid program.

In considering block grants for a particular activity, Congress should focus on three key questions. First, who ought to be the recipient of the block grants? And, is the proposed recipient capable, through experience, of administering the block grant activities? When looking back at the community development effort, clearly the proper recipient was local government, cities and counties, the historical users of Federal grants under the consolidated programs. Where a city or county had no previous experience under the consolidated programs, the legislation phased in their participation over a 3-year period.

NLC has generally supported the administration's State block grant proposals in the social services, health, education, and fuel assistance areas. In fact, States are the primary and sometimes sole recipients of funds under the consolidated programs. While some States may be less involved than others in delivering these services, with few exceptions local governments are not the main actors in these areas.

That is not true, however, in the community development area, where the administration proposed and both Houses approved in different form, the administration by the States of the HUD small city community development program. Most States have very little experience in this area, while the relationship between HUD and small cities has been a satisfactory one for many years.

NLC has strongly opposed this shift of authority to the States. Nothing in the historical record provides any basis for regarding the States as the appropriate recipients of community development block grants.

Second, what are Congress objectives for the assistance being provided through the block grant? In the community development program, Congress established two key objectives for local development programs: The removal of slums and blight; and the provision of improved community facilities, including necessary social services. These objectives, which guide local development efforts under the program, flowed naturally out of the major programs consolidated into the block grant.

Unfortunately, there are no such specific objectives built into the administration's block grants, although to a certain extent the listing of eligible activities implies a set of objectives being carried over from the consolidated programs. In our view, if congressional oversight is to be meaningful, Congress should state its specific objectives as explicitly as possible.

Third, how should funds be distributed? In the community development program, an intricate system was established, including a basic distribution formula, modified by hold-harmless amounts for those hurt by the formula and phase-ins over 3 years for those who benefited inordinately from the formula. The hold-harmless provision was phased out over 6 years.

The administration has proposed a hold-harmless mechanism for the first year of the various block grant programs, although to a level that generally cuts funding under the consolidation programs by about 25 percent in fiscal year 1982. Obviously, program and service levels will suffer in all of the areas for which block grants are being adopted.

We do not accept the administration's assurances that the inherent efficiencies of block grants will offset the program cuts. Some of the programs, title XX social services, for example, were already block grants, and thus formalizing the arrangement is not likely to achieve substantially greater efficiencies.

NLC also believes that Congress should honor any pass through requirements in programs being consolidated. Where funds now go to States but are required to be passed through, either directly or indirectly, to local governments, similar requirements should be contained in the block grant program. The administration's local education block grant contained such a requirement: 87 percent of the block grant funds were required to be passed through to local educational agencies.

Finally, Mr. Chairman, we believe it is absolutely essential that any new State block grant legislation contain requirements for consultation with local governments. State-local consultation would have important benefits in assuring that local priorities and problems are addressed and the State activities are coordinated with, and do not duplicate, local activities of the same kind. This and other points made in my testimony are included in a resolution on block grants adopted by NLC's board of directors at our May 1981 meeting in Indianapolis. That resolution is attached to my prepared statement.

To summarize, Mr. Chairman, NLC supports block grants, which have great advantages for States and local governments, as well as the Congress itself. We believe that the Congress should explore additional grant areas for consolidation into such grants. Finally, Congress should focus carefully on three elements of block grants: The proper recipient of the grant funds; the specific program objectives congress is trying to achieve; and the appropriate distribution of block grant funds.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Beals follows:]

PREPARED STATEMENT OF ALAN BEALS

Mr. Chairman, my name is Alan Beals, executive director of the National League of Cities. As you know, NLC represents about 15,000 cities across the country, directly and through membership in state municipal leagues. Our direct member cities range in size form New York City and Los Angeles to Sun Valley Idaho, with a population of 401.

We appreciate the opportunity to testify before you on the block grant concept, its general desirability and practicality, and its place in a federal system of government. You are right to pursue the block grant concept from a general vantage point, while Congress authorizing committees deal with the specific issues that block grants raise with respect to various groups of programs. During the next several years the congress is likely to be considering many more block grant proposals.

NCL very strongly supports the block grant concept. Its advantages—in terms of the ability of the recipient to shift funds from one use to another to meet changing local needs—cannot be denied. And, when formula funding is introduced, the predictability and certainty of funding adds and additional critical advantage.

Our experience as local officials with one block grant—the community development block grant enacted in 1974—bears out the validity of the concept. Before HUD's community development programs were block granted, a city had to apply separately for urban renewal, model cities, neighborhood facilities, rehabilitation, open space, water and sewer, and advance acquistion of land grants. Each program had its own funding source, its own application requirements, its own matching requirements, and, most importantly, its own regulatory requirements. No city could be assured of a grant in any program in any year, let alone how much in grant funds it could reasonably count on for the next and following years.

Under the block grant, every city of 50,000 population or more knows generally what it will receive for 3 years. It is allowed to use the funds in any combination it desires consistent with its 3 year-plan and Congress national objectives for community development. And it may shift funds from one activity to another as local needs dictate. Significantly, even cities of less than 50,000 population (which do not receive assured multi-year funding) enjoy all of these important advantages.

This is an excellent place to clarify a key point of confusion in most block grant discussions. The validity of block grants—in which programs similar in nature and in type of recipients are consolidated into one broad authority—does not depend on funding levels. Flexibility for grant recipients to meet shifting local needs should be considered a key element of any grant program, whether it is funded at $100 million or $1 billion. The amount of funding is a separate decision and in most cases is irrelevant to the block grant concept (the only exception involves cases where the amount of funding is so small relative to the number of recipients that it would be impractical for a substantial number of recipients to carry on a meaningful level of activities).

One final advantage of block grants that is often overlooked: The benefits to the Congress itself. As you know, during the past two decades hundreds of categorical grant programs have been created, ranging in size from programs that dispense a few million dollars (like HUD's Neighborhood Self-Help program) to those that annually distribute many billions of dollars (like the EPA wastewater treatment construction program). For each of these programs, Congress must extend authorizations (for many annually), appropriate funds, amend basic laws, review executive branch regulations, and carry out necessary oversight activities. We believe it is foolhardy to believe that Congress can do this job adequately for hundreds of programs, let alone have the time to identify and begin to deal with emerging problems.

A comprehensive move toward block grants can help change this to some extent. There is little doubt that the House and Senate Banking Committees are better able to review and evaluate HUD's major development assistance activity, the block grant program, than they were to review and evaluate urban renewal, model cities, water and sewer grants, and all the rest. The savings in members' time and effort have been substantial and have resulted in more meaningful oversight, better legislation and a more effective aid program.

Not every grant program ought to be block granted; but many can and should be. We urge the Congress to take the initiative in this area.

In considering block grants for a particular activity, Congress should focus on three key questions:

First, who ought to be the recipient of block grants? And, is the proposed recipient capable, through experience, of administering the block grant activities?

In community development, clearly the proper recipient was local government, cities and counties, the historical users of Federal grants under the consolidated programs. Where a city or county had had no previous experience under the consolidated programs, the legislation phased in their participation over a 3-year period.

NLC has generally supported the administration's State block grant proposals in the social services, health, education, and fuel assistance areas. In fact, States are the primary (and sometimes sole) recipients of funds under the consolidated programs. While some States may be less involved than others in delivering these services, with few exceptions local governments are not the main actors in these areas.

That is not true, however, in the community development area where the administration proposed, and both Houses approved in different form, the administration by the States of the HUD small city community development program. Most States have very little experience in this area, while the relationship between HUD and small cities has been a satisfactory one for many years. NLC has strongly opposed this shift of authority to the States: Nothing in the historical record provides any basis for regarding the States as the appropriate recipients of community development block grants.

Second, what are Congress's objectives for the assistance being provided through the block grant?

In the community development program, Congress established two key objectives for local development programs: The removal of slums and blight and the provision of improved community facilities, including necessary social services. These objectives, which guide local development efforts under the program, flowed naturally out of the major programs consolidated into the block grant. Unfortunately, there are no such specific objectives built into the administration block grants, although to a certain extent the listing of eligible activities implies a set of objectives being carried over from the consolidated programs. In our view, if congressional oversight is to be meaningful, Congress should state its specific objectives as explicitly as possible.

Third, how should funds be distributed?

In the community development program, an intricate system was established, including a basic distribution formula, modified by "hold harmless" amounts for those hurt by the formula and phase-ins over three years for those who benefited inordinately from the formula. The "hold harmless" provision was phased out over 6 years.

The administration has generally proposed a "hold harmless" mechanism for the first year of the block grant program, although to a level that generally cuts funding under the consolidated programs by about 25 percent in fiscal year 1981. Obviously, program and service levels will suffer in all of the areas for which grants are being adopted. We do not accept the administration's assurances that the inherent efficiencies of block grants will offset the program cuts. Some of the programs (social services, for example) were already block grants, and thus formalizing the arrangement is not likely to achieve substantially greater efficiencies.

NLC also believes that Congress should honor any "pass through" requirements in programs being consolidated. Where funds now go to States but are required to be "passed through", either directly or indirectly, to local government, similar requirements should be contained in the block grant program. The administration's local education block grant contained such a requirement: 87 percent of the block grant funds were required to be "passed through" to local educational agencies.

Finally, Mr. Chairman, we believe it is absolutely essential that any new State block grant legislation contain requirements for consultation with local governments. State-local consultation would have important benefits in assuring that local priorities and problems are addressed and that State activities are coordinated with, and do not duplicate, local activities of the same kind. This and other points made in my testimony are included in a resolution on block grants adopted by NLC's board of directors at our May meeting in Indianapolis. That resolution is attached to my statement.

To summarize, Mr. Chairman, NLC supports block grants, which have great advantages for States and local governments, as well as the Congress itself. We believe that the Congress should explore additional program areas for consolidation into such grants. Finally, Congress should focus carefully on three elements of block grants; the proper recipient of grant funds; the specific program objectives Congress is trying to achieve; and the appropriate distribution of block grant funds.

A POLICY STATEMENT ON BLOCK GRANTS AND STATE-LOCAL RELATIONS

The Board of Directors of the National League of Cities reaffirms its existing policy statements on block grants.

We believe in the block grant approach of consolidating similar categorical programs. Experience with such block grants as community development over a seven year period show their value in providing flexibility to tailor local programs to national objectives; in planning comprehensive local solutions; in expediting application processes and in managing the complexity of public and private relationships inherent in the delivery of public services. We believe that there are many additional opportunities for block grant consolidation and encourage the Administration and Congress to seriously consider them. As a matter of principle, similar programs with similar objectives should be consolidated.

NLC policy does express a number of important principles in the structuring of block grants.

Programs provided to cities should not have the states substituted as the delivery agent.

Program areas with current pass-though requirements from state to local governments should continue to have such requirements in a block grant.

Consultation requirements with cities and institutions representing cities should be a requirement in any block grant program.

States should not impose on local government excessive mandates, regulations or requirements in administration of block grants.

The best case for state administration of programs can be made where states buy-in by supplementing Federal resources with state financial assistance.

The clear lesson of the country's history of intergovernmental relations is that there are three distinct but interrelated partners in federalism; each has responsibilities that it is best capable of discharging. Such responsibilities should be derived according to their primary roles.

In the administration of any block grants, states should demonstrate a commitment to the strengthening of local government, municipal home rule and a participatory process of municipal involvement that strengthens the fabric of state-local relations and contributes to a new sense of vitality and vigor in the intergovernmental system.

Representative HAMILTON. Thank you, Mr. Beals.

The next witness will be Indiana State Representative John Thomas, representing the National Conference of State Legislatures. Mr. Thomas, you may proceed.

STATEMENT OF JOHN THOMAS, MEMBER OF THE EXECUTIVE COMMITTEE, NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. THOMAS. Mr. Chairman, my name is John Thomas. I serve in the Indiana House of Representatives as the assistant majority leader. I also currently serve on the executive committee of the National Conference of State Legislatures and the executive committee of the Council of State Governments.

I'm from Brazil, Ind. It's a great privilege and pleasure to be here today on behalf of 7,500 State legislators around the country.

Senate President Ross Doyen of Kansas, the president-elect of the National Conference of State Legislatures, asked me to bring you his regrets that State business required him to stay in Kansas today.

The invitation, as you know, Mr. Chairman, was sent to him in his position as president-elect. But State business kept him from coming today and he asked me to take his place. I appreciate that opportunity.

I have developed a fact sheet through the NCSL block grants which I'd like to submit with my prepared statement to you and the members of the subcommittee.

Representative HAMILTON. It will be made a part of the record, without objection.

Mr. THOMAS. Thank you. This week, our NCSL's State Legislatures magazine is including an article on block grants. As soon as that is out—it's in the process of being printed now—I will be sure to have copies sent to you in the next few days.

There is probably no more timely issue in the intergovernmental sphere today than the proposals for block grants. Our NCSL is meeting this coming week in Atlanta, Ga. We anticipate that the legislative leaders of all of the 50 States, as well as many of the legislators of the 50 States, will be there for this annual meeting.

One of the main issues that we have on our program is the challenge of the block grants that will be coming to the States, should the States be assigned this responsibility. So, this is a major concern to us and something that we are gearing up for should the Congress decide that that's the way they should go.

We are not entirely pleased as State legislatures with the proposals being discussed in the Congress. Some matters do cause us concern. For example, maintenance of efforts requirements, matching requirements, lack of sufficient transition language and other restrictions—which hopefully, are being worked out in the conference committee—have diluted the original proposed size and flexibility of the block grants to a mere fraction of their first appearance. The 25-percent funding reduction that accompanies nearly all of them makes their successful implementation problematic.

Some services will have to be reduced because there will be less money. But most of the States feel that this decision allocating the remaining dollars can be done most effectively at the local level.

The advisory commission on intergovernmental relations has recently addressed the capabilities in a forthcoming major study entitled "The State and Local Rules in the Federal System." In my prepared statement you will find some quotes that I will not take the time to give at this time from that study.

Also, the ACIR has found that over the past 10 to 15 years, States have become more resourceful in their financial and tax structures. They have improved their institutional procedures through their regular and special sessions, through joint interim appropriations and finance committees, other interim studies aimed at indepth analyses of State issues. Legislatures have professionalized their staffs significantly in the last 10 to 15 years. I know that from my own experience.

State legislatures are the logical place for the discussion and resolution of State-local concerns. We have everything else on the agenda concerning State and local issues, whether it be counties, cities, rural areas, whatever, and to strip us of the responsibility in this area I think is putting us at a great disadvantage, especially in view of the fact that there will be a 25- to maybe 30-percent reduction in funding when you take inflation into consideration.

Deliberations in these representative bodies assure a fair hearing of all sizes of State-local concerns. I am not aware of a State that doesn't have open meetings, whether it be legislative committee meetings, study committee meetings, or whatever.

In fact, I have found it to be that the legislative committee meetings are probably more open than some of the local meetings in my particular town in which I serve.

Currently about 30 State legislatures will play a roll in determining the use of block grant funds. I feel that these 30 States can justify and easily take care of the block grant role that they would be required to assume should this legislation be adopted. In other States, we are taking steps that we anticipate will be necessary should we be given the major role in implementing the block grant program.

Kansas has arranged for their Kansas Finance Council, made up of the Governor and eight legislative leaders, to have the authority to determine the level of funding for the Federal block grants. Some States, such as Texas, have passed resolutions which restrict the Governor to prorating the funding reduction among the categorical grants which make up the block grants until the legislature can meet to appropriate the funds.

The Illinois Legislature will use hearings plus a day of hearings in Washington in September as a means of determining the need for such legislation.

The 25- to 35-percent reduction will certainly lower the level of services in many States, but if the block grant legislation includes sufficient flexibility for States, there may be a shift in priorities as the programs are adapted to address needs identified at the State level.

Because of the reduction in funding, it is likely that State agency staff will at best hold constant, even through State responsibilites increase. Most State legislators feel that we can with present staff take care of the block grant responsibility should the States be given that responsibility. Freedom from onerous Federal reporting requirements should, however, allow for more efficient use of staff time. If the block grants require too severe maintenance of effort requirements, State treasuries could lose funds in implementing block grants in the first 2 years. That is a decision which will be thrust upon us in the States.

In lowering its domestic spending and reducing taxes, the Federal Government is making the decision to reduce services in exchange for increased defense spending and a stronger economy. States should not be blamed for any resulting loss in services. But, they certainly will want to do their part in making up to the local citizenry for the loss of those services.

Many States will have to increase their spending for health and social services because of this reduction in Federal financial assistance. However, I don't think it is the intention of the Congress that States raise their taxes to cover all the funds lost from Federal budget reductions. The people elect people to Congress and the same people elected the people to the legislatures and the mayors and the county officials. They are saying the same thing, hold the line, cut where you can. So, we are not free at home to make up the difference that the Federal Government is causing by cutting of its funding for the States.

Let me just in closing state that in my own State of Indiana, our Governor has taken two steps in anticipation of this responsibility. He has designated the State planning services agency as the coordinating agency for the implementation of block grants. He has also created an advisory group to look into these same block grants. This block grant management committee includes several State legislators, as well as the Governor and Lieutenant Governor.

I thank you for this opportunity to address you, Mr. Chairman. While I have expressed a number of concerns about block grants, I hope I have conveyed the message that State legislatures by-and-large have the ability to deal with the proposed change in Federal funding and that we are already actively pursuing the best solution to the difficult questions of how to allocate diminishing Federal resources.

[The prepared statement of Mr. Thomas follows:]

PREPARED STATEMENT OF JOHN THOMAS

Thank you, Mr. Chairman, members of the committee for this opportunity to address the issue of block grants. My name is John Thomas. I serve in the Indiana House of Representatives as the Assistant Majority Leader. I have held leadership posts for 13 of my 15 years in office. I also currently serve on the Executive Committee of the National Conference of State Legislatures and the Executive Committee of the Council of State Governments.

Senate President Ross Doyen of Kansas, the president-elect of the National Conference of State Legislatures, asked me to bring you his regrets that State business required him to stay in Kansas today. He has provided a description of activities underway in his State to implement the block grants expected from the Federal Government. I'd like to enter them in the record if I may.

I also have a factsheet developed by NCSL on block grants which I'd like to submit with my statement. In addition, the materials I am presenting today are in large measure gathered from several articles which will be published this week in NCSL's State Legislature magazine. I'll be sure to have copies sent to you in the next few days.

There is probably no more timely issue in the intergovernmental sphere today than the proposals for block grants. The National Conference of State Legislatures has long supported their creation to increase the efficiency of public spending. We aren't entirely pleased with the proposals being discussed in the Congress. Maintenance of effort requirements, matching requirements, lack of sufficient transition language and other restrictions have diluted the originally proposed size and flexibility of the block grants to a mere fraction of their first appearance. The 25 percent funding reduction that accompanies nearly all of them makes their successful implementation problematic. Services will have to be reduced because there is less money. But most of the States feel that this decision of allocating the remaining dollars can be done most effectively at the local level. In all candor I must report that a number of State legislators feel that Washington is just passing on the difficult political problem of identifying who must lose Federal funds. While I share their concern over the reduced funding levels, I also feel that States stand to improve the efficiency of a number of programs.

The Advisory Commission on Intergovernmental Relations has recently assessed State capabilities on a forthcoming major study entitled "The State and Local Roles in the Federal System." Let me quote a few lines.

". . . States have undergone changes that have transformed both their capacities and their roles in the federal system. Every State participated in the most extensive wave of State institutional reform in history, and governments at all levels contributed to a marked shift in emphasis in the States' role. The resulting alterations are so extensive that the structurally and procedurally stronger, more accountable, assertive States of today, performing a major intergovernmental management and financing role, bear little resemblance to the generally poorly organized and equipped and unresponsive entities of a quarter-century ago. The mind set of the States is different. They have lost their reluctance to change and to act."

States have stepped up their aid to localities. State financing of State-local expenditures from their own funds rose from 46.8 percent in fiscal year 1957 to 57 percent in fiscal year 1979. From 1972 to 1979 this aid increased by 72 percent from $27.8 billion to $48 billion. States are the dominant service providers; their contributions towards public health and welfare and education have all increased in relation to local contributions over the last 25 years. ACIR further found that States already pass through about 27 percent of their Federal grants-in-aid. Clearly States have been playing a key role in running State programs, providing local assistance, and managing Federal funds to provide the highest possible level of services with the best use of State revenues. What States are being asked to do in these block grants—besides the loss of 35.7 percent of present Federal funds—is nothing more than they have long been doing.

Over the past 10 to 15 years States have become more resourceful in their financial and tax structures. They have improved their institutional procedures such that it is rare for a State legislature not to be active at any time of the year either through sessions or special missions, joint interim appropriations and finance committees, or interim studies aimed at indepth analyses of State issues. Related to this is the fact that legislatures have professionalized their staffs significantly in the last 10 to 15 years.

State legislatures are the logical place for the discussion and resolution of State-local concerns. The legislators are elected from those very same municipalities and communities competing for State dollars. Deliberations in these representative bodies assure a fair hearing of all sides of State-local concerns.

Currently about 30 State legislatures will play a role in determining the use of block grant funds. The usual law and practice of the appropriations process in every State guarantees public hearings and thorough discussion. Montana, Iowa, New York and Oklahoma have all taken steps to increase their legislative role in appropriating Federal funds. Kansas has arranged for their Kansas Finance Council, made up of the Governor and eight legislative leaders, to have the authority to determine the level of funding for the Federal block grants. Some States such as Texas have passed resolutions which restrict the Governor to prorating the funding reduction among the categorical grants which make up the block grants until the legislature can meet to appropriate the funds. The General Assembly of Illinois has called for extensive hearings on the fiscal year 1982 budget and its impact on State programs, and are inviting executive agencies, interest groups and local governments to testify on what they believe will happen and what they'd like to see. The Illinois Legislature will use these hearings plus a day of hearings in Washington, D.C. in September as a means of determining the need for legislation.

The 25-percent reduction will certainly lower the level of services in many States, but if the block grant legislation includes sufficient flexibility for States, there may be a shift in priorities as the programs are adapted to address needs identified at the State level. Because of the reduction in funding, it is likely that State agency staff will at best hold constant even though State responsibilities increase. Freedom from onerous Federal reporting requirements should however, allow for more efficient use of staff time. This could allow for much greater communication with county and city agency staff who will also gain additional responsibility in many States.

NCSL has consistently stated that a 5-10 percent savings could be realized by consolidating categorical grants. If you allow for a 10-12 percent inflation rate, the fiscal year 1982 funds are likely to be 37-38 percent below fiscal year 1981 levels. That reduction is too steep to maintain current services. In fact, if the block grants require too severe maintenance of effort requirements (as in the Senate version of the health services block grant), State treasuries could lose funds in implementing block grants in the first 2 years. In lowering its domestic spending and reducing taxes, the Federal Government is making the decision to reduce services in exchange for increased defense spending and a stronger economy. States should not be blamed for any resulting loss in services. Many States will increase their spending for health and social services. NCSL will be monitoring this. However, I don't think it is the intention of the Congress that States raise their taxes to cover all the funds lost from Federal budget reductions. Shifts in State funding will occur, and as ACIR has shown—and I've attached a few of their charts—State revenues have increasingly been spent on exactly these program areas over the last 20 years.

The transition problem is also of concern to States as we see Federal legislation being adopted in the next 2 weeks which will carry an effective date of October 1, 1981, without sufficient time for Federal agencies to develop implementing regulations or time to fully interpret the change in responsibilities. A State's legal and financial obligation for State laws that incorporate existing Federal performance standards, activity levels, or definitions—which may be changed by block grants—is unclear and this raises complicated questions. The size and scope of some of the programs being consolidated argue for sufficient transition time to enable State legislatures time to review and act on these issues. In many instances, final action cannot be taken before final Federal regulations are adopted. In these cases, no resolution can be expected from the States until Federal activities are completed.

Let me turn my attention now to the current proposals and steps now underway in many States. Of the $8-$9 billion included in block grant proposals in the reconciliation bills, less than 5 percent of the funds have gone directly to localities in the past, while more than 80 percent of the monies in noneducation programs flowed to the States. In my own State, Indiana, Governor Orr has taken two steps: he has designated the State Planning Services Agency as the coordinating agency for the implementation of block grants. He has also created an advisory group to look into these same block grants. This Block Grant Management Committee includes several State legislators as well as the Governor and Lieutenant Governor. Our Joint Legislative Council has scheduled a day of hearings in August for the purpose of reviewing activities now underway and assessing their adequacy. At that time plans will be made for future legislative actions.

Again, I thank you for this opportunity to address you. While I have expressed a number of concerns about the block grants, I hope I have conveyed the message that State legislatures by and large have the ability to deal with the proposed change in Federal funding and that we are already actively pursuing the best solution to the difficult questions of how to allocate diminishing Federal resources.

I'd be glad to answer any questions you may have.

The National Conference of State Legislatures Factsheet

THE CAPABILITIES OF STATES TO ADMINISTER BLOCK GRANTS

In the debate on federal block grants, some special interest groups are charging that states are incapable of handling the responsibility of block grants and are insensitive to the needs of their citizens.

Examination of the facts, however, proves otherwise. Here are the main charges and the facts which answer them.

Charge: "States are financially, institutionally, and politically ill-equipped to assume added responsibilities of the magnitude contemplated in the block grant proposals."

Facts: Whether measured against their own past record or compared with federal and local government capabilities, the current record of states stacks up well.

Financially, the states have become more resourceful.—The state portion of state-local taxes surpassed the local share for the first time in the early 1960s and now stands at 58 percent. Between 1960 and 1979, 11 states adopted a personal income tax. By 1979, 41 states had a broad-based income tax, 45 had a corporate income levy, and 45 had a general sales tax. In 1979, 37 states used all three of these revenue sources.

Although withdrawal of federal assistance form social programs would put greater demands on all states—some much more than others—state taxing systems now are as flexible and modern as any others and far more balanced than they were 20 years ago.

Institutionally, the states are up-to-date.—They have dramatically reorganized themselves and expanded the powers of local governments in the past 20 years. Between 1930 and 1960, for example, only five states overhauled their constitutions (including two new states); between 1960 and 1980, 11 did. In 1960, 15 states still had two-year terms for governors, compared with four today; just over half of all permanent state employees were covered in merit systems, compared with three-quarters today; 45 state legislatures violated the "one person, one vote" principle, compared with none today; only three states had "reformed" state-local judicial systems, compared with three-quarters of the states today; and no state staffed its standing committees in both houses of the legislature, compared with 36 states today. Today, state government organization is less fragmented, has fewer legal shackles, and is far more open in its policymaking and administrative processes than it was 20 years ago.

Politically, the states are vigorous and viable.—Charges that the executive or legislative branch would simply play political games with block grants are unfounded. State lawmakers are elected by the people and are the only authentic and responsive voice of the needs of their constituents. When problems spill over beyond local jurisdictions, and when local disputes threaten solutions, state lawmakers are the only ones who can take effective action to assure the public good.

States have reorganized themselves to meet changing needs, and they continue to do so. To charge that politics would cripple the states' implementation of block grants is to ignore the facts of current state action.

Charge: "The states have neglected the problems of the poor, the handicapped, and the disadvantaged, which is why the federal government established categorical programs in the first place."

Facts: States are the dominant providers of governmental services for needy Americans. In most states, they provide more than 55 percent of the expenditures for hospitals, health, state-local public welfare, corrections, highways and natural resources. They also pay most of the costs of education and the courts. Even when their traditional functions such as health and welfare are heavily assisted by federal grants, states continue to support them with large outlays.

In addition, the states provide 33 percent of the revenues of local governments. Much of this revenue is also devoted to services for the needy.

Charge: "Large cities have not been the primary focus of state government problem-solving, which is one reason why the federal government got involved."

Facts: States have attended to cities more than ever some city officials realize. During the last 20 years, states have reapportioned their legislatures to give cities fair representation and have steadily taken on service responsibilities once left up to local means. States have granted local tax relief and authorized new revenue sources for local governments. Few federal programs, if any, have helped needy communities as much as the growing state assumption of welfare and education costs or the enactment of "circuit-breaker" programs and other forms of property tax relief.

Most states have not opted for the same kind of attention-getting urban grant programs that the federal government has. But they have provided more flexible and diverse assistance (that many judge to be more effective), and states continue to provide local governments with more grant funds than the federal government does.

Charge: "States don't have the staff or the experience to administer in the services which have been aided with federal categorical grants."

Facts: States already have personnel experienced in administering most of the programs proposed for block grants. They do so because of their responsibility in administering the categorical grants. They also have experience in many areas where the federal categorical aid bypasses the states. For example: All 50 states have a Department of Community Development or similar office. All 50 states have economic and industrial development agencies responsible for the expansion of industrial activity. Furthermore, a recent experiment in Kentucky revealed that local officials there preferred state administration to federal administration of the small cities Community Development Block Grant Program.

Charge: "States have no experience administering block grants."

Facts: The states pioneered block grants. Fifty years before the federal government enacted general reenue sharing, states provided general aid for the operation of local public school systems, counties and municipalities. By 1977, 41 states provided general local support to counties and 46 states provided general local support to municipalities. Today, all states but one provide general aid for schools. (Hawaii, the exception treats the entire state as a single school system supported entirely by the state).

Furthermore, many "categorical" state grants operate like block grants, without the restrictive strings and requirements which accompany federal categorical grants.

Charge: "States can't handle more responsibility because many have part-time legislatures which meet for only a few months every year or two."

Facts: State legislatures have changed. In 1960, 31 legislatures operated primarily on a biennial basis; now only 14 do, and these are frequently called into special session in the second year. The legislatures not meeting year-around almost always have active committees and study commissions which meet during the interim to study problems in depth and to take action where warranted.

Conclusion: Because of the cutback in federal assistance, in fiscal year 1982, states and local governments will have to pick up more of the burden of governmental services.

To stretch the limited public dollars and make wise allocations, it will be more than ever important to coordinate every dollar of federal, state and local money.

The best way to promote this coordination is to channel the federal funds through the states, so that state and local officials can size up and solve their problems together.

TABLE 20.—STATE EXPENDITURE FOR SELECTED STATE-LOCAL FUNCTIONS, FROM OWN REVENUE SOURCE, AND OTHER STATE AID, BY STATE, 1977–78

[Dollar amounts in millions]

State and region	Total selected functions, and other State aid			Selected functions				Other State aid	
	Amount	State personal income, percent	State percent related to U.S. average	Local schools	Highways	Public welfare	Health and hospitals	General local government support	All other State aid [1]
United States	$86,634	5.38	100	$36,066	$11,938	$15,010	$11,902	$6,819	$4,899
New England	5,042	5.47	102	1,559	566	1,295	728	205	689
Connecticut	1,111	4.22	78	352	128	246	185	95	105
Maine	415	6.35	118	168	74	66	42	28	37
Massachusetts	2,736	6.26	116	840	250	810	324	37	475
New Hampshire	233	3.87	72	23	68	35	51	34	22
Rhode Island	397	6.97	111	124	24	113	102	11	23
Vermont	149	4.97	92	51	22	25	24	([3])	27
Mideast	18,183	5.58	104	7,444	1,633	3,506	2,911	1,423	1,266
Delaware	305	6.47	120	171	32	41	33	...	28
Maryland	1,954	5.90	110	748	267	402	293	98	146
New Jersey	2,591	4.23	79	1,252	164	470	341	251	113
New York	8,030	5.74	107	3,153	563	1,170	1,479	1,039	626
Pennsylvania	5,303	6.11	114	2,120	607	1,423	765	35	353
Great Lakes	17,293	5.38	100	6,634	2,344	3,390	2,082	2,066	777
Illinois	4,738	4.98	93	1,911	630	1,230	499	162	306
Indiana	2,052	5.24	97	945	354	124	234	319	76
Michigan	4,432	6.01	112	1,743	518	979	519	520	153
Ohio	3,742	4.67	87	1,387	585	666	585	363	156
Wisconsin	2,329	6.98	130	648	257	391	245	702	86
Plains	6,453	5.28	98	2,587	1,287	873	788	587	331
Iowa	1,238	5.75	107	458	304	184	128	108	56
Kansas	803	4.61	86	364	157	140	95	28	19
Minnesota	2,254	7.52	140	1,016	281	280	215	321	141

TABLE 20.—STATE EXPENDITURE FOR SELECTED STATE-LOCAL FUNCTIONS, FROM OWN REVENUE SOURCE, AND OTHER STATE AID, BY STATE, 1977–78—Continued

[Dollar amounts in millions]

State and region	Total selected functions, and other State aid			Selected functions				Other State aid	
	Amount	State personal income, percent	State percent related to U.S. average	Local schools	Highways	Public welfare	Health and hospitals	General local government support	All other State aid [1]
Missouri	1,268	3.77	70	519	294	173	213	6	63
Nebraska	497	4.47	83	99	144	48	74	100	32
North Dakota	231	5.43	101	99	55	23	27	19	8
South Dakota	161	3.68	68	31	52	25	36	5	12
Southeast	17,255	5.47	102	8,117	3,391	1,336	2,716	801	894
Alabama	1,305	5.87	109	644	222	97	228	24	90
Arkansas	711	5.73	107	298	161	84	78	28	62
Florida	2,696	4.42	82	1,503	344	190	318	238	103
Georgia	1,612	4.99	93	720	348	(2)	[2] 404	16	124
Kentucky	1,444	6.60	123	652	394	197	124	1	76
Louisiana	1,651	6.58	122	715	293	145	268	163	67
Mississippi	807	6.38	119	334	174	86	107	90	16
North Carolina	2,113	6.09	113	1,160	396	(2)	[2] 362	86	109
South Carolina	1,092	6.31	117	498	135	105	201	56	97
Tennessee	1,255	4.67	87	569	271	156	169	69	21
Virginia	1,789	4.79	89	652	437	202	373	21	104
West Virginia	777	6.63	123	371	216	74	84	9	23
Southwest	6,453	4.70	87	3,614	1,042	512	876	282	127
Arizona	911	5.65	105	415	143	61	89	175	28
New Mexico	583	7.78	145	313	96	(2)	[2] 78	82	14
Oklahoma	987	5.11	95	518	197	113	112	8	39
Texas	3,972	4.21	78	2,368	606	338	597	17	46
Rocky Mountain	2,211	5.22	97	1,047	369	246	284	101	164
Colorado	836	412	77	418	104	130	129	16	39
Idaho	325	5.67	105	130	91	38	29	30	7
Montana	345	6.92	129	166	60	18	38	14	49

TABLE 20.—STATE EXPENDITURE FOR SELECTED STATE-LOCAL FUNCTIONS, FROM OWN REVENUE SOURCE, AND OTHER STATE AID, BY STATE, 1977-78—Continued

[Dollar amounts in millions]

State and region	Total selected functions, and other State aid			Selected functions				Other State aid	
	Amount	State personal income, percent	State percent related to U.S. average	Local schools	Highways	Public welfare	Health and hospitals	General local government support	All other State aid[1]
Utah	493	6.13	114	272	51	52	67	1	50
Wyoming	212	6.30	117	61	63	8	21	40	19
Far West[4]	12,818	5.31	99	4,610	1,233	3,689	1,388	1,302	596
California	10,065	5.38	100	3,425	741	3,178	1,110	1,193	418
Nevada	210	3.66	68	87	41	15	26	17	24
Oregon	857	4.64	86	283	189	186	123	50	26
Washington	1,686	5.63	105	815	262	310	129	42	128
Alaska	420	9.62	179	221	46	54	33	32	34
Hawaii	508	7.15	133	234	28	108	95	22	21

[1] Excludes any state aid for education other than local schools.
[2] Public welfare expenditure for Georgia, New Mexico, and North Carolina are included with health and hospital expenditures. Data necessary for separation by function, by source of financing, are not readily available for fiscal year 1978.
[3] Less than $500,000.
[4] Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; and National Education Association, Estimates of School Statistics, 1978-79 (copyright 1979 by the National Education Association, all rights reserved). Significant Features of Fiscal Federalism: 1979-80.

TABLE 57.—GENERAL REVENUE OF LOCAL GOVERNMENTS, BY SOURCE AND BY STATE, 1977–78

[Total, per capita and percentage distribution]

State and region	General revenue		Percent								
			Intergovernmental revenue		Own source revenue						
						Taxes					
	Total (millions)	Per capita	From Federal	From State	Total own source	Total taxes	Property	General sales	Income	All other	Charges and miscellaneous
United States	$194,783.8	$892.39	10.0	33.2	56.8	41.3	32.9	3.2	2.1	3.1	15.6
New England	9,788.6	797.96	11.9	22.8	65.3	56.8	56.2			.5	8.6
Connecticut	2,267.1	727.57	9.2	21.4	69.4	60.2	59.6			.6	9.1
Maine	669.9	613.46	13.0	33.5	53.5	44.7	44.4			.3	8.9
Massachusetts	5,423.6	939.80	12.9	22.5	64.6	56.0	55.6			.5	8.5
New Hampshire	530.9	610.93	9.5	15.8	74.8	64.6	63.3			1.2	10.2
Rhode Island	605.9	650.11	14.0	25.7	60.3	55.3	54.7			.5	5.0
Vermont	291.2	597.95	11.4	21.5	68.2	59.6	59.0			.6	8.6
Mideast	50,161.9	1,187.91	10.4	33.0	56.5	45.1	31.2	4.0	5.9	3.9	11.5
Delaware	411.7	704.97	21.1	37.7	41.2	24.3	20.6		2.5	1.1	16.9
District of Columbia	2,107.3	3,140.54	53.3		46.7	40.2	9.4	7.5	13.7	9.6	6.6
Maryland	4,009.9	966.71	12.2	32.6	55.3	41.8	27.0		10.4	4.4	13.5
New Jersey	6,964.5	952.08	8.2	27.1	64.7	55.1	49.0			6.1	9.6
New York	27,927.1	1,573.71	7.3	37.6	55.2	44.0	29.9	6.7	5.0	2.4	11.2
Pennsylvania	8,741.4	743.13	10.8	31.1	58.1	44.2	29.1		9.5	5.5	13.9
Great Lakes	34,443.7	835.61	9.0	34.5	56.5	40.9	34.8	1.6	2.5	2.0	15.6
Illinois	9,328.3	830.07	9.2	28.8	62.0	48.6	39.2	4.7		4.7	13.4
Indiana	3,631.9	674.32	7.8	38.9	53.3	37.0	35.6		1.1	.3	16.3
Michigan	8.652.0	942.38	10.8	33.8	55.4	38.9	35.5		2.3	1.0	16.5
Ohio	8,342.7	777.37	9.0	33.3	57.7	40.7	30.4	1.5	7.5	1.4	17.0
Wisconsin	4,488.8	958.53	6.1	46.6	47.4	32.3	31.7			.6	15.1
Plains	13,672.8	802.58	9.3	32.2	58.5	39.2	34.5	1.5	.7	2.6	19.3
Iowa	2,422.6	833.65	7.6	37.1	55.3	37.1	36.3			.8	18.2

TABLE 57.—GENERAL REVENUE OF LOCAL GOVERNMENTS, BY SOURCE AND BY STATE, 1977–78—Continued

[Total, per capita and percentage distribution]

State and region	General revenue		Percent								
			Intergovernmental revenue		Own source revenue						
						Taxes					
	Total (millions)	Per capita	From Federal	From State	Total own source	Total taxes	Property	General sales	Income	All other	Charges and miscellaneous
Kansas	1,787.5	761.61	7.2	24.1	68.7	46.0	43.0	.9		2.1	22.7
Minnesota	4,147.3	1,030.64	8.0	43.6	48.4	30.2	29.0	.1		1.2	18.1
Missouri	3,166.7	653.33	13.7	24.6	61.7	43.9	29.8	4.6	2.9	6.5	17.8
Nebraska	1,254.5	799.55	8.4	19.2	72.4	47.4	43.4	2.0		2.0	25.0
North Dakota	457.4	700.46	8.2	36.3	55.5	35.1	33.6			1.5	20.4
South Dakota	436.8	633.04	10.7	18.0	71.3	56.7	50.9	3.0		2.8	14.7
Southeast	32,191.4	651.73	11.5	35.5	53.0	31.6	23.1	3.8	.5	4.2	21.5
Alabama	2,094.8	561.91	10.4	37.7	51.9	25.2	9.7	7.8	1.1	6.6	26.6
Arkansas	1,136.7	524.55	10.7	40.2	49.1	24.9	22.5	.1		2.3	24.3
Florida	7,042.3	813.10	11.1	32.2	56.7	31.9	26.8			5.0	24.8
Georgia	3,631.3	709.52	13.5	25.6	60.9	34.0	26.9	3.2		3.9	26.9
Kentucky	1,738.9	498.25	13.6	41.1	45.3	27.2	15.8		8.5	3.0	18.1
Louisiana	2,710.8	680.08	11.1	38.8	50.1	31.8	14.3	14.8		2.7	18.4
Mississippi	1,511.3	629.71	10.4	43.6	46.0	21.2	20.1			1.2	24.8
North Carolina	3,632.5	652.04	12.0	46.6	41.4	26.9	22.0	4.3		.6	14.5
South Carolina	1,558.6	537.08	8.9	37.6	53.5	27.6	25.7			1.9	25.9
Tennessee	2,772.0	639.74	12.4	29.6	57.9	34.9	23.1	8.0		3.9	23.0
Virginia	3,362.9	649.58	11.2	29.7	59.0	46.4	31.8	4.9		9.7	12.7
West Virginia	999.3	536.97	8.9	46.6	44.5	27.6	22.3			5.2	17.0
Southwest	13,702.1	703.39	9.7	32.4	57.9	39.3	32.3	4.7		2.4	18.5
Arizona	2,091.1	881.21	10.2	35.5	54.3	39.5	31.8	5.5		2.2	14.8
New Mexico	870.1	716.13	14.9	53.1	32.0	18.8	14.8	1.6		2.4	13.2
Oklahoma	1,733.6	609.99	12.7	34.3	52.9	33.8	22.2	9.6		1.9	19.2
Texas	9,007.3	690.21	8.5	29.3	62.2	42.4	36.0	3.9		2.5	19.8

TABLE 57.—GENERAL REVENUE OF LOCAL GOVERNMENTS, BY SOURCE AND BY STATE, 1977–78—Continued

[Total, per capita and percentage distribution]

State and region	General revenue		Percent								
			Intergovernmental revenue		Own source revenue						
						Taxes					
	Total (millions)	Per capita	From Federal	From State	Total own source	Total taxes	Property	General sales	Income	All other	Charges and miscellaneous
Rocky Mountain	5,123.8	838.73	8.6	30.8	60.6	42.7	34.5	6.1		2.1	17.9
Colorado	2,488.9	919.77	8.6	28.0	63.4	45.9	33.7	9.6		2.6	17.5
Idaho	569.1	645.24	9.2	33.9	56.8	34.2	33.1			1.1	22.6
Montana	687.8	881.79	8.9	30.1	60.9	44.1	42.5			1.6	16.9
Utah	910.1	691.57	9.0	37.9	53.1	37.9	29.5	6.1		2.4	15.2
Wyoming	467.9	1,100.94	6.5	29.1	64.4	42.9	38.4	3.5		.9	21.6
Far West	35,699.5	1,169.02	8.9	33.9	57.2	42.1	35.2	3.4		3.5	15.1
Alaska	602.0	1,464.72	8.5	35.9	55.6	31.6	25.3	5.8		.6	24.0
California	28,280.1	1,267.37	8.0	34.8	57.1	43.7	37.0	3.7		3.0	13.5
Hawaii	383.7	425.39	28.4	9.9	61.7	50.9	40.5			10.4	10.8
Nevada	710.7	1,067.12	8.7	27.1	64.1	38.3	25.4	3.3		9.5	25.8
Oregon	2,362.4	963.46	14.6	27.4	58.1	41.1	37.5			3.6	16.9
Washington	3,360.6	886.00	9.5	34.9	55.6	31.5	21.8	3.6		6.1	24.2

Source: ACIR staff computations based on U.S. Bureau of the Census, Governments Division, published and unpublished data.

TABLE 60.—GENERAL REVENUE OF COUNTY GOVERNMENTS, BY SOURCE AND BY STATE, 1977–78

[Total, per capita and percentage distribution [1]]

State and region	General revenue		Percent								
			Intergovernmental revenue		Own source revenue						
						Taxes					
	Total (millions)	Per capita	From Federal	From State	Total own source	Total taxes	Property	General sales	Income	All other	Charges and miscellaneous
United States	$46,047.9	$211.62	10.5	33.4	54.7	37.9	30.4	4.0	0.9	2.5	16.8
New England	228.2	18.60	7.2	11.7	80.4	60.6	60.0			.6	19.8
Connecticut	0.0										
Maine	21.1	19.32	14.2	20.4	64.0	54.0	53.6				10.0
Massachusetts	160.0	27.72	6.7	4.6	87.9	67.1	66.3			.8	20.7
New Hampshire	46.1	53.05	5.2	32.3	62.3	41.0	41.0				21.3
Rhode Island	0.0										
Vermont	1.0	2.05	30.0		70.0	70.0	70.0				
Mideast	10,203.5	245.54	10.3	34.2	54.6	43.9	30.8	7.9	3.5	1.7	10.7
Delaware	95.1	162.84	46.3	6.7	46.6	23.8	22.6			1.2	22.8
Maryland	2,503.9	603.64	7.7	27.8	64.4	52.0	32.7		14.3	5.0	12.3
New Jersey	1,694.2	231.61	12.7	32.6	54.4	44.7	44.1			.5	9.7
New York	4,776.3	269.15	8.6	39.4	50.3	41.5	23.9	16.9		.7	8.8
Pennsylvania	1,134.0	96.40	16.6	30.6	52.4	36.7	36.0			.7	15.7
Great Lakes	6,616.4	160.51	9.2	37.5	49.4	26.0	21.7	1.7	.6	2.1	23.3
Illinois	1,071.2	95.32	11.3	22.1	62.6	42.2	33.1	3.2		5.9	20.3
Indiana	802.6	149.02	5.8	33.7	60.3	27.5	22.0		5.1	.5	32.7
Michigan	1,649.5	179.66	13.7	38.4	40.4	21.9	20.9			1.0	18.5
Ohio	1,769.9	164.92	7.7	37.8	51.3	26.6	19.3	4.4		2.8	24.8
Wisconsin	1,323.2	282.55	5.8	50.6	40.6	16.4	16.3			.1	24.2
Plains	2,927.0	171.81	7.8	28.0	63.2	40.3	36.8	1.2		2.3	22.9
Iowa	585.3	201.41	6.1	27.1	66.0	38.9	37.6			1.3	27.1
Kansas	351.4	149.72	7.1	11.0	81.3	57.9	51.7	2.9		3.3	23.4

TABLE 60.—GENERAL REVENUE OF COUNTY GOVERNMENTS, BY SOURCE AND BY STATE, 1977–78—Continued

[Total, per capita and percentage distribution [1]]

State and region	General revenue		Percent								
			Intergovernmental revenue		Own source revenue						
						Taxes					Charges and miscellaneous
	Total (millions)	Per capita	From Federal	From State	Total own source	Total taxes	Property	General sales	Income	All other	
Minnesota	1,105.3	274.68	7.0	44.0	47.9	29.4	28.9			.4	18.6
Missouri	412.0	85.00	12.6	9.0	78.2	51.1	39.7	5.6		5.8	27.1
Nebraska	281.3	179.29	7.6	22.3	68.8	38.3	33.9	.2		4.2	30.5
North Dakota	111.5	170.75	7.0	28.1	61.8	47.2	44.6			2.6	14.6
South Dakota	80.2	116.23	10.6	8.2	80.0	66.0	58.1			7.7	14.1
Southeast	11,342.0	229.62	11.1	31.2	56.7	36.2	27.2	5.7	.2	3.1	20.6
Alabama	353.3	94.77	13.5	26.4	58.5	46.9	20.2	14.2		12.4	11.7
Arkansas	247.5	114.21	15.2	24.5	60.0	18.7	18.5			.2	41.3
Florida	1,864.5	215.28	19.9	11.0	68.0	37.2	33.1			4.1	30.8
Georgia	771.8	150.80	14.1	9.6	76.1	60.5	43.0	13.5		4.0	15.6
Kentucky	346.5	99.28	21.2	21.6	54.7	33.3	22.8		7.5	3.0	21.4
Louisiana	736.3	184.72	11.7	21.5	66.1	30.4	19.2	9.4		1.9	35.6
Mississippi	474.3	197.62	11.1	22.5	66.0	23.6	22.4			1.2	42.4
North Carolina	2,774.5	498.03	6.9	56.8	35.8	26.1	20.1	5.6		.4	9.7
South Carolina	439.5	151.45	10.8	21.4	67.4	22.7	21.5			1.1	44.7
Tennessee	1,421.2	327.99	4.8	33.9	60.0	40.4	25.5	12.9		2.0	19.6
Virginia	1,779.5	343.73	8.4	33.5	56.9	46.8	35.4	4.5		6.9	10.1
West Virginia	133.1	71.52	23.4	15.7	60.4	35.2	34.3			.9	25.2
Southwest	2,127.6	109.22	12.0	14.5	72.5	49.0	45.4	.1		3.6	23.5
Arizona	495.0	208.60	13.7	26.5	58.1	44.1	42.2			1.9	14.0
New Mexico	124.5	102.47	28.0	13.5	57.5	30.4	24.8	1.2		4.4	27.1
Oklahoma	271.6	95.57	10.5	33.5	54.7	35.0	34.8			.3	19.7
Texas	1,236.5	94.75	10.0	5.6	83.7	55.9	51.0			4.9	27.8
Rocky Mountain	1,200.5	196.51	9.7	21.6	67.5	45.5	39.8	4.0		1.8	22.0

TABLE 60.—GENERAL REVENUE OF COUNTY GOVERNMENTS, BY SOURCE AND BY STATE, 1977–78—Continued

[Total, per capita and percentage distribution [1]]

State and region	General revenue		Percent								
			Intergovernmental revenue		Own source revenue						
						Taxes					Charges and miscellaneous
	Total (millions)	Per capita	From Federal	From State	Total own source	Total taxes	Property	General sales	Income	All other	
Colorado	442.9	163.67	11.3	31.7	55.6	37.3	32.4	2.9		1.9	18.3
Idaho	147.9	167.69	8.7	22.2	68.8	34.6	33.1			1.6	34.2
Montana	248.6	318.72	9.4	11.1	79.0	60.7	58.5			2.2	18.3
Utah	185.9	141.26	11.5	21.2	64.2	45.8	33.5	9.8		2.6	18.3
Wyoming	175.2	412.24	5.3	10.6	83.7	53.8	44.2	9.4		.2	30.0
Far West	11,402.7	373.39	11.3	39.2	48.3	37.0	32.5	1.9		2.6	11.3
Alaska	166.0	403.89	6.8	50.0	43.0	38.1	30.9	7.0		.2	4.8
California	9,631.4	431.63	10.1	41.5	47.3	37.2	34.2	1.6		1.3	10.2
Hawaii	95.8	106.21	18.6	24.9	56.5	47.4	36.2			11.2	9.1
Nevada	323.7	486.04	8.1	7.7	80.0	42.8	22.0	6.9		13.9	37.2
Oregon	541.4	220.80	32.5	32.0	34.3	20.5	16.7			3.8	13.8
Washington	644.4	169.89	13.1	25.8	58.8	44.6	25.3	5.2		14.2	14.3

[1] Percentage distribution does not add to 100 due to the exclusion of interlocal revenue from table.

Source: ACIR staff computations based on U.S. Bureau of the Census, Governments Division, published and unpublished data.

Prepared for Senator Doyen—Testimony Before Federal Subcommittee

BLOCK GRANTS

One of the arguments raised by opponents of the President's block grant proposals is that states will be unable with the limited lead time to cope with the new responsibilities brought about by the change in federal fiscal policy. Persons advocating this view must certainly believe that state governments are totally inflexible as regards their fiscal procedures. I can assure you that State Governments are well accustomed to dealing with the unexpected and will find the means to effect any orderly transition from categorical to block grant financing.

There are obvious differences among the states that may necessitate their addressing the issue in different ways. My discussions with colleagues from other states convinces me that they are prepared to do the things necessary to make the new system work in their states. In Kansas, we have already appointed an interim study committee comprised of the leadership of both parties in the two houses and charged that group with the responsibility to examine all programs that could be impacted by reduced federal funding and the institution of block grants. The procedures and mechanics are in place to accept and utilize the block grants to address those state and local programs that are of the highest priority.

I must express my concerns regarding certain elements of the block grant legislation currently under consideration by the Congress. If the states are to be expected to cope with reduced federal support, it is unreasonable to bind the hands of the States Legislatures by mandating continued support for certain programs. The states are willing to assume the increased responsibility, together with the federal funding cutbacks. However, to insert elements of categorical funding within the block grants will place the states in a most difficult position.

SENSITIVITY TO LOCAL NEEDS

While it may be expected some local government officials may experience anxiety at the prospect of having to look to the state capitol rather than Washington under the President's block grant proposals, such feelings appear unjustified if one examines past efforts by states to respond to local government needs. Additionally, such concerns ignore the political reality that state legislators are just as sensitive to the funding needs of local governmental agencies and programs as state agencies and programs.

In Kansas, the Legislature views local property tax increases nearly as distasteful as having to increase state tax rates. I suspect the same attitude prevails in statehouses around the country. We have attempted to cope with local government needs in Kansas by increasingly sharing state revenues with local governmental jurisdictions. The approved fiscal year 1982 State General Fund earmarks nearly 46 percent of expenditures for grants to local units of government.

During the past session, a major issue confronting the Legislature was the need to increase revenues available for maintenance and construction on the state highway system. The state currently shares approximately 31 percent of highway fuels tax revenues with cities and counties. Every proposal considered by the Legislature for increasing fuel tax revenues made provision for sharing 30–35 percent of such increased tax receipts with local governments. Since no legislation was enacted, the 1982 Legislature will again struggle with the issue. One thing I am certain of is that local government needs will also be addressed.

In the stewardship of federal block grants, the record will show that the State of Kansas has shared those revenues equitably with local governments. In fiscal year 1980, the state allocated 59 percent of 314(d) Health Incentive Grant funds with local governments. With reduced federal funds available in fiscal year 1982, the Kansas Legislature largely supplanted the lost federal funds with state appropriations to ensure adequate funding for local health programs.

The Legislature's sensitivity to the increasing competition for local revenue sources is also illustrated by the actions of the Legislature in recent years to relieve local governments of any financial responsibility for public assistance programs and salaries of judicial employees. These actions were taken in large part due to the recognized fiscal pressures confronting local governments and are just as meaningful a form of aid as are the sharing of state revenues with local governments.

Local governments are creations of the states. Restoring to the states the responsibility and the financial means for dealing with local government needs can only work to the advantage of everyone.

Representative HAMILTON. Thank you, Mr. Thomas.

Mr. Gunther, from the U.S. Conference of Mayors.

STATEMENT OF JOHN J. GUNTHER, EXECUTIVE DIRECTOR, U.S. CONFERENCE OF MAYORS

Mr. GUNTHER. I appreciate the fact that my prepared statement will be included in the record. Therefore, I will summarize. I would like to second and support and associate the Conference of Mayors with the representatives from the National Association of Counties and the National League of Cities. The concerns of the local governments with the operations of the grants are shared by the Conference of Mayors. We, too, had our annual meeting in Louisville, Ky. The concerns outlined by their spokesmen are the same as those expressed by the mayors at that time.

I have included the resolutions adopted there as an attachment to my prepared statement. I think the most important thing to remember from our point of view is that Congress over any period of time is only going to appropriate money for a national purpose. Indeed, revenue sharing, general revenue sharing, has a national purpose and that was to relieve the reliance, almost total reliance, on the property tax and to bring a greater flexibility in the gathering of funds to be used to meet local priorities. If, as is done by some of the administration's block grant proposals, the national purposes are wiped out, I don't look forward to being the lobbyist who comes up here seeking funds in the years ahead.

I think that is a serious liability. I would also point out that—as we pointed out at other committees, particularly in the Senate—these block grants were drafted totally without consultation with local government.

I am very much involved with my colleagues from State and local government. We were all shown the block grants one afternoon. They were already in cement. We thought they were consulting with us. We were told we misunderstood the purpose of the meeting. They were telling us what we had to do, not asking us.

Representative HAMILTON. Some of us felt the same way here in the Congress.

Mr. GUNTHER. If we had been consulted, we would have asked for mandatory passthrough, among other things, and we would have lost. Then we would have had a forum in which to plead for some organized, systematic consultative processes. Apparently what has happened in the House and Senate reconciliation processes, those first two options are not available. We are still hoping that there will be a transition mechanism—and I believe that all of us, whether it be the State or the local level, say we do need some transition mechanism. I have heard several Governors testify, State legislators, county people, that some of them are going to be ready October 1, and some of them have been doing it really for years, nay. But some others are going to need some time. We wrote a letter on Monday and I would like to submit that, Mr. Chairman, for the record.

Representative HAMILTON. Without objection, it will be made a part of the record.

[The letter referred to follows:]

U.S. CONFERENCE OF MAYORS,
Washington, D.C., July 20, 1981.

DR. ROBERT J. RUBIN,
Assistant Secretary, Office of Assistant Secretary for Planning and Evaluation, Washington, D.C.

DEAR DR. RUBIN: We have been asked by the White House to transmit to you transition language to be included in the Reconciliation Bill covering all of the block grants which it establishes: We recommend the following:

Until such time as the state certifies to the Secretary or chief administrative officer of the federal agency designated as the federal administrating agency for said funds that the state is prepared to expend or distribute the funds allocated and to be paid to such state under the terms of a block grant established by this Act and so notifies the Secretary or chief administrative officer of said federal agency, or until October 1, 1982, whichever comes first, the Secretary or chief administrative officer of said federal agency shall distribute such payments within said state pursuant to the provisions of laws repealed by the block grant.

During this transition period, states are encouraged to involve local government officials in all phases of the implementation of each block grant established under this Act; to assure responsiveness to service needs throughout each state, local elected officials and appropriate local government agency administrators should be included in the planning and resource allocation process associated with each block grant.

We believe that this language is appropriate for Title XVI of the Reconciliation Bill. It should be noted that the first paragraph contains the transition language that has been recommended by the National Governors' Association.

We appreciate this opportuntiy to comment on the proposed legislation.

Sincerely,

JOHN J. GUNTHER,
Executive Director.

Mr. GUNTHER. It is our idea of the transition language. It does add a little extra sentence that in the meantime that they at least talk to us.

One of the serious problems I think is the cuts. We have really a 35-percent cut in the funds. That is not peanuts. Not only the 35 percent—it is 25 percent plus 10 percent inflation—but it is proposed as the President projected in his budget, to hold this level on the next two budgets. So that by the end of this, we will have a 55-percent cut.

That means we will have 45 percent of the money. We have heard the President say that it is his goal not to justify going to block grants, but to use that as a bridge to get rid of all Federal aid to State and local governments. That is what bothers me. If the aid is down to 45 percent, we are going to have a difficult time building a constituency to continue any Federal participation. We are 50 years old in the Conference of Mayors this year. We have been doing some research. Cities went bankrupt in the thirties because there was no Federal support for welfare or relief in this country. We don't want to go broke again. Thank you.

[The prepared statement of Mr. Gunther follows:]

PREPARED STATEMENT OF JOHN J. GUNTHER

Mr. Chairman and Members of the Joint Economic Committee, thank you for this opportunity for the U.S. Conference of Mayors to comment on the block grant proposals of the Administration and the somewhat different versions of the block grants contained in the reconciliation bills.

As you know, the Administration proposed five different block grants to states, consolidating dozens of social service, health and education programs. In addition, the Administration proposed to turn over to the states 30 percent of Community Development Block Grant funds—the small cities' portion of the program. We are strongly opposed to state administration of CDBG funds and have testified to that effect on numerous occasions. In my remarks today, I will address the other block grant proposals.

As you know, the Administration's proposed health, social service and education block grants would give the states nearly complete discretion in deciding how to spend federal funds. There are no requirements of consultation with local officials, no ceiling on state administrative costs, no guarantee that important local human service programs will continue to receive funds, nor any requirement that the states spend the funds consistent with national goals.

The Conference of Mayors has long held that the federal government should spend its funds efficiently and wisely to achieve national goals. Most federal programs have been designed in precisely this fashion, with requirements of how funds can be spent and for what purposes. Even the general revenue sharing program was enacted to achieve a federal objective—that of increasing the progressivity of the overall tax structure by reducing reliance on local property taxes.

Last month at our 49th Annual Conference, the U.S. Conference of Mayors spent much time analyzing and commenting upon the Administration's block grant proposals. While in most cases we continue to urge that federal funds be provided directly to cities, we recognize that some human service programs will be channeled through the states. However, to the limited extent state categorical programs are consolidated into state block grants, the Conference of Mayors urges the Congress to require direct pass-through of funds to local governments, a limitation on state administrative costs, targeting on the basis of need and citizen participation. The resolutions adopted by the mayors on block grants are attached to my statement.

A CITY ROLE

The Conference of Mayors believes that cities should be assured of funds for important human service programs administered at the local level. The best way to do this is to require the state to pass through funds directly to cities of appropriate size. To the extent that funds for some programs go through the state government, there should be a requirement to ensure city involvement, including mayoral sign-off and the participation of local officials in the planning and resource allocation process.

It seems logical that since people live, and services are delivered, at the local level, cities are in a good position to try to rationalize the human services delivery system. Cities are the level of government closest to the people served and, therefore, have the best opportunity to be cognizant of both individual and community needs. When a service is not provided responsively or responsibly, voters can and do take action. Thus, city involvement in programs can also lead to greater accountability. Many cities have developed a capacity to administer human service programs. They have a delivery system in place, and should have the option of receiving block grants directly from the federal government.

FUNDING

A level of funding that provides only 75 percent of current funds will result in substantial cutbacks in services. Any administrative savings which will be achieved will not come close to defraying funding reductions of this magnitude.

Moreover, in the Administration's and the Senate's block grants proposals there are no requirements to assure that states continue to contribute the same share to the program they did previously. Should the states also cut their contribution to human service programs or use additional funds for state administration, there will be a major cut, perhaps on the order of 50 percent, in service levels, with a terrible impact on the poor.

The House reconciliation bill does require some limited maintenance of effort on the part of the states, a requirement The Conference of Mayors supports.

ADMINISTRATIVE COSTS

No ceiling is placed on the amount or percentage of administrative costs that may be incurred by the states in administering the block grants. One concern that mayors have voiced regarding the block grants proposals is that the states will create new large bureaucracies to administer the block grants programs. A cap on administrative costs would help to minimize the growth of such bureaucracies and assure that the maximum amount is allocated to services.

TARGETING

No requirements are included which would allocate funds among the states on the basis of need or ensure that people served by the program are needy.

Mayors are justifiably concerned that without requirements of targeting, the cities will lose significant funds. The Advisory Commission on Intergovernmental

Relations, in a May publication entitled "The States and Their Distressed Communities", recently reported that states are doing relatively little to help distressed areas. The report concluded that "state-local aid efforts targeted to distressed areas remain in their formative stages." Only 16 states target rehabilitation tax incentives, only 11 target economic development assistance, only 8 small business assistance, only 5 states restrict the use of industrial development bonds to distressed areas and only 14 have neighborhood improvement programs. The record is poor, and the mayors are justifiably concerned that the record will not improve dramatically if states are given no-strings federal funds.

PROGRAM TO BE CONSOLIDATED

The Conference of Mayors is concerned about the large array of federal categorical programs which the Administration proposes to consolidate—programs administered by different agencies aimed at different population groups and which serve different national purposes.

We urge the Congress to explore other ways to ease administrative burdens on state and local governments—perhaps through the consolidation of similar types of programs and the simplification of administrative requirements—without losing national recognition of and responsiveness to particular needs.

The House reconciliation bill consolidates fewer and more closely-related programs into health block grants than does the Senate and for that reason is preferable, in our view. We are also relieved that the House has excluded the handicapped and Title I education programs from the special population groups in need of assistance.

TRANSITION

It is unfortunate that the Administration has proposed, and the Congress has included in its reconciliation bill, enactment of the block grants by October 1st of this year. This hasty termination of categorical programs and abdication of authority to the states will cause significant chaos. The states are not prepared to assume this unprecedented administrative role so quickly. The necessary state bureaucracies are not in place, plans have not been made about how to allocate the funds, and many state legislatures have not yet reconvened to reformulate state budgets. Without at least a one-year transition, the block grants threaten to turn into an administrative nightmare.

Mr. Chairman, thank you for this opportunity to voice some of our concerns about the proposed block grants. As I have stated, we are especially concerned that the Congress take action to assure that some restrictions are placed on state expenditures of block grant funds, that local officials are directly involved in the planning and allocation process under the programs, and that there is an adequate transition period. We look forward to working with this committee and the Congress to formulate block grants which truly achieve national objectives.

BLOCK GRANTS TO STATES

Whereas, in most cases, the most appropriate form of funding Federal programs are block grants; and

Whereas, municipalities know local problems best and are best able to set local priorities; and

Whereas, it is important to ensure that these funding mechanisms are utilized in the most effective manner by the local community; and

Whereas, health and human services funds have traditionally gone to the States for distribution; and

Whereas, all cities that are currently receiving Community Development Block Grants should continue to receive direct Federal funding under the Community Development Block Grant proposals, and cities over 100,000 population should continue to receive direct Federal funding under CETA; and

Whereas, entitlement cities have been and will continue to have a direct relationship with the Federal Government in certain program areas, now, therefore, be it

Resolved, That to the limited extent State categorical grants are consolidated into State block grants, the U.S. Conference of Mayors urges the Congress to require direct pass-through of funds to local governments, an active role for local officials in the planning and allocation process, a limitation on State administrative costs, targeting on the basis of need and citizen participation.

BLOCK GRANTS FOR HEALTH AND HUMAN SERVICES

Whereas, the U.S. Conference of Mayors has consistently supported the concept of block grants as a mechanism for providing Federal funds; and

Whereas, the Administration has proposed a series of block grants to the States for health and human services programs as well as other program areas and is contemplating the development of additional block grants; and

Whereas, Mayors are concerned about how responsive the block grant proposals for health and human services will be to the needs of urban residents because the requirements placed on the States are minimal, and the funding for the programs is significantly reduced, now, therefore, be it

Resolved, That the U.S. Conference of Mayors supports the establishment of block grants in areas such as health and human services if they include the following provisions:

The granting of funds directly or through the States to local governments of appropriate size with a demonstrated service delivery capacity which wish to receive them;

The involvement of local governments in the planning and resource allocation process so that locally identified needs can be taken into account;

An adequate level of funding, not below the current services level for the programs, included in the block grant;

Maintenance of effort and measures to avoid significant disruption of existing programs;

The allocation of funds among and within the States based not just on population but targeted to need and the population in need of service;

Eligibility requirements to ensure that the people served through the block grant are in need;

Assurances that State administrative requirements will not be onerous and a five to ten percent limit on the administrative costs that can be incurred;

A termination period during which the block grant can be implemented;

The collection of data to enable annual monitoring and evaluation of the block grants by the Federal Government to assure that the funds are properly spent;

A more logical grouping of programs which at a minimum combines programs whose purposes are related and maintains a Federal response to particular national problems; and

The consolidation, rather than repeal, of existing legislation so that critical needs will continue to be met.

EDUCATION BLOCK GRANTS

Whereas, the Administration has submitted to the Congress a draft bill to authorize the consolidation of 44 existing elementary and secondary education programs receiving Federal aid at State and local levels; and

Whereas, the education programs proposed for consolidation are those which have served educationally-deprived children, handicapped children, children in schools undergoing desegregation, children in institutions, and adults lacking basic skills; and

Whereas, the children and adults who have been served by the programs proposed for consolidation are concentrated in the Nation's cities; and

Whereas, the consolidation of the programs which have served these children and adults will place decisionmaking authority concerning the kinds and amounts of services to be provided to them in State and local school systems, but will eliminate the Federal guidelines designed to assure that necessary kinds and amounts of services are provided, now, therefore, be it

Resolved, That the U.S. Conference of Mayors calls upon the Congress to include in the proposed Federal education program consolidation bill adequate provisions to ensure that local education agencies and other appropriate government agencies are involved in the determination of criteria to be used in the allocation of Federal funds among school systems within States, and are involved in the generation of the data that are used in making allocation decisions within States.

Representative HAMILTON. Thank you, Mr. Gunther.

The last witness will be Stephen Farber, the National Governors' Association.

STATEMENT OF STEPHEN B. FARBER, EXECUTIVE DIRECTOR, NATIONAL GOVERNORS' ASSOCIATION

Mr. FARBER. Thank you, Mr. Chairman.

It is a pleasure to be with you to day at these hearings on block grants and the intergovernmental system.

For many years, the National Governors' Association has strongly supported the principle of block grants in areas other than income assistance and medical care financing, where we have opposed them. We believe that block grants, if properly designed, enable States not only to meet Federal goals more effectively, but to target their own resources, often skewed and dissipated by the categorical grant system, which has burgeoned to over 500 grants, as you know, Mr. Chairman, to meet the most pressing needs of their communities.

We have estimated the administrative savings of block grants at about 10 percent. As you know, the budget cuts are in the range of 25 percent or, as Mr. Gunther has suggested, in real terms even more. It is therefore clear that the budget cuts will result in a reduction in services, whether or not block grants are adopted. That is a central fact that I think all of us must contend with.

A number of serious problems with the block grants now in conference are of real concern to State officials and must be addressed now. They include excessive constraints on flexibility, the inclusion or exclusion of certain categorical programs, totally unworkable provisions such as title XVI of the House bill, and the transition process. That has already been alluded to. If these problems can be resolved effectively, then the long-range benefits that block grants offer in terms of increased efficiency and healthier balance among Federal, State, and local government responsibilities will have a greater chance of being realized. The alternative to block grants at the present time is reduced Federal funding with proportionately higher overhead costs across a broad range of activities, thereby insuring that services to people bear the full brunt of the budget cuts. That is something I believe all of us should oppose.

Some local officials and organizations have taken a more critical approach to the new block grants. They have suggested that the block grants involve a massive change in the Federal aid system that would divert substantial funds now going directly to local governments to the States, and the States are far less sensitive than Washington to urban needs.

With regard to the first point, it should be observed that States already have the dominant role in financing and administering services in the affected policy areas, as Mr. Beals has pointed out, and that the composition of the block grants is merely an accurate reflection of what now exists in the categorical grants that are to be blocked.

With regard to changes in funding patterns, the principal one is in the area of the small cities portion of the community development block grant. In that program, funds would continue to go to the small cities, but it would be the States rather than the HUD area offices that would be administering the program.

Our own view of that change is that it is a healthy and constructive one and that it recognizes at long last the fact that States have

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economic development programs of their own that in many instances are quite extensive, as in the State of Indiana, and that it is long past time to have effective coordination of those State efforts with efforts in economic development that are funded by the Federal Government.

I think it is also important, Mr. Chairman, to point out that of the major Federal-local funds, such as the entitlement portion of the community development block grants or revenue sharing or CETA or the remainder of the EDA program, none are being affected by those block grants. It is, instead, programs that have flowed historically to the States that are being blocked, and it is appropriate that States should have the principal role as a result.

With regard to the second point about the capacity or the sensitivity of the States, I think it should be evident, Mr. Chairman, to anyone who looks deeply into the matter that the States, like the local governments and like the Federal Government, like our society as a whole, have undergone tremendous changes in the last 20 years and along with better local management now represent the best hope for the future of our communities, great and small.

State legislatures have long since been reapportioned, State work forces professionalized, State revenue-raising capacity expanded, State administrative and planning systems modernized. There is still a way to go, but that is true of the local and Federal governments as well.

Georgia's Governor, George Busbee, chairman of the National Governors' Association, has said, "It is time for local officials to decide whether they want to scrap over hundreds of diminishing Federal programs now distributed by Washington to 65,000 local governments through formulas and procedures that often defy logic, or whether they want to forge a new partnership with the States in which they recognize that we hold our futures jointly in our own hands."

I think with the diminishing Federal aid that is clearly in prospect, that future is more and more going to be in our own hands. And it will require positive action by the States and also by the local governments.

The Governors are determined to work closely and cooperatively with Federal and local officials—and with the recipients and providers of services—to make the block grants function effectively despite funding cuts and other serious problems. There will be a consultative process, as Mr. Thomas has pointed out, because that is the nature of the process of government in the States.

Although the final legislation has not been passed, efforts are already underway in every State to prepare for the new programs. A major session at the NGA annual meeting on August 9, will be devoted to block grant implementation. Extensive planning efforts and implementation efforts will be made by every State, and the National Governors' Association will join Washington-based organizations of local officials to expedite the implementation processes.

This is an effort we should all contribute to. Problems of transition to block grants, especially in health and social services, require attention and action now because the October 1 effective date is already so close at hand. Adequate transition language must be included in the reconciliation bill, and a comprehensive technical assistance strategy must be developed immediately if block grant implementation is to be not a confused and damaging process, but an orderly and effective one.

All of us, Mr. Chairman, will have to join forces to this end. We are committed to work with you to achieve this vitally important objective. Thank you.

[The prepared statement of Mr. Farber follows:]

PREPARED STATEMENT OF STEPHEN B. FARBER

Mr. Chairman and members of the subcommittee, it is a pleasure to join you today at these hearings on "Block Grants and the Intergovernmental System". With the final enactment of new block grants or consolidations in health, social services, education, community development, and energy as part of the budget reconciliation bill only a few days away, these hearings are timely and important.

Flexible federal aid to state and local governments, defined broadly as general revenue sharing and block grants, will increase in the fiscal 1982 federal budget regardless of which provisions emerge from the House-Senate conference committee. The increase is not large in absolute dollars but represents some change in direction for the federal aid system. Flexible funds totaled $17.3 billion of the $94 billion in fiscal 1981 state and local aid; they are likely to total about $20 billion of about $86.2 billion in fiscal 1982 state and local aid. The higher flexible funds total includes $7-8 billion in new and modified block grants, $6.5 billion in general purpose grants (largely revenue sharing), and about $6 billion in existing block grants. More than 50 categorical programs will be folded into the new block grants. During 1975-81, by contrast, no new block grants were created, and categorical grants grew from about 442 to 492. It remains to be seen, however, whether some of the proposed block grants will emerge from conference with sufficient flexibility. In their present form, some provisions are little more than categorical programs.

For many years the National Governors' Association has strongly supported the principle of block grants in areas other than income assistance and medical financing. We believe that block grants, if properly designed, enable states not only to meet federal goals more effectively but to target their own resources, often skewed and dissipated by the categorical grant system, to meet the most pressing needs of their citizens.

We have estimated the administrative savings of block grants at about 10 percent. The budget cuts, however, are in the range of 25 percent, and even more in real terms. It is therefore clear that the budget cuts will result in a reduction in services, whether or not block grants are adopted.

A number of serious problems with the block grants now in conference are of real concern to state officials and must be addressed now. They include excessive constraints on flexibility, the inclusion or exclusion of certain categorical programs, totally unworkable provisions such as Title XVI of the House bill, and the transition process. If these problems can be resolved effectively, then the long range benefits that block grants offer in terms of increased efficiency and healthier balance among federal, state and local government responsibilities will have a greater change of being realized. The alternative to block grants is reduced federal funding with proportionally higher overhead costs across a broad range of activities, thereby insuring that services to people bear the full brunt of the budget cuts.

The block grants also raise the important issue of intergovernmental cooperation. With dramatic decreases in federal aid likely, it becomes even more important for governments to coordinate the use of their resources. The logical place for this coordination is at the state level, where it largely existed until the federal government became deeply involved in local affairs. What's more, it may be advantageous to local governments in the long run to have the states—which already provide far more assistance to local governments than Washington does—participate more extensively in policy areas where state governments offer a better hope for continued aid than does the federal treasury.

Some local officials and organizations have taken a more critical approach to the new block grants. They have claimed that the block grants involve a massive change in federal aid patterns that would divert substantial funds now going directly to local governments to the states, and that states are far less sensitive than Washington to urban needs.

The first point grossly misrepresents the composition of the block grants, which are going to the states because of the states' already dominant role in financing and administering services in the affected policy areas. In social services, for example, states receive $4.5 billion, or 89 percent, of the funding under the affected categorical programs in 1981; local governments receive none; and other providers 11 percent. In energy emergency assistance, states receive $1.8 billion, or 95 percent of the funds; local governments receive none; and other providers 5 percent. In health states receive $833 million, or about 50 percent, of the 1981 categorical funding; local governments 14 percent; and other providers 36 percent. Most money now received by the states in these areas is passed through to local governments or contracted out to other providers, although the states are generally not required to do so. In education, the states will pass the same percentage of new block grant funds through to local school districts that they now pass through under the categorical programs.

The principal change in funding patterns for local governments involves the small cities portion of the Community Development Block Grant, which states rather than HUD area officies will now administer. But entitlement funding patterns under CDBG will not be affected, and funding patterns for CETA, revenue sharing and the remainder of EDA will also be unchanged.

The critics' argument about state insensitivity is equally questionable. Certainly not every state-local fiscal situation resembles that of New Jersey and Newark, where in 1976-77 13 percent of the city's revenues came from Washington, 40 percent from the city itself, and 47 percent from Trenton. But it should be evident to anyone who looks deeply into the matter that the states have undergone tremendous changes in the last 20 years and, along with better local mangement, now represent the best hope for the future of our communities, great and small. State legislatures have long since been reapportioned, state work forces professionalized, state revenue-raising capacity expanded, state administrative and planning systems modernized.

As Georgia's Governor George Busbee, Chairman of the National Governors' Association, has said: "It is time for local officials to decide whether they want to scrap over hundreds of diminishing federal programs now distributed by Washington to 65,000 local governments through formulas and procedures that often defy logic, or whether they want to forge a new partnership with the states in which we recognize that we hold our futures jointly in our own hands."

The Governors are determined to work closely and cooperatively with federal and local officials—and with the recipients and providers of services—to make the block grants function effectively despite funding cuts and other serious problems. Although the final legislation has not been passed, efforts are already under way in every state to prepare for the new programs. A major session at the NGA annual meeting on August 9 will be devoted to block grant implementation. Extensive planning and implementation efforts will be made by every state, and the National Governors' Association will join Washington-based organizations of local officials to expedite the implementation process.

Problems of transition to block grants, especially in health and social services, require attention and action now because the October 1 effective date is already so close at hand. Adequate transition language must be included in the reconciliation bill, and a comprehensive technical assistance strategy must be developed immediately if block grant implementation is to be not a confused and damaging process but an orderly and effective one.

All of us, Mr. Chairman, will have to join forces to this end. We are committed to work with you to achieve this vitally important objective.

Representative HAMILTON. Well, thank you very much, gentlemen. Your statements are excellent. I have appreciated each one of them. Nobody is against block grants, is that right?

Mr. Tsutras, you came very close to it. Are you against them or not?

Mr. TSUTRAS. It is like making love, you know. Nobody wants to talk about how they got there. I think that is the same way with block grants. The details are the things that are worrying a lot of people in the small cities and rural areas, and the details have not been forthcoming from the administration.

Consequently they did not fully inform the Members of Congress as well as these people here who represent the Governors, the county officials, and the city officials.

Representative HAMILTON. But your position is not against block grants?

Mr. TSUTRAS. At this point, I would think that over a period of time, there are a lot of details that have to be provided to assure the small cities and rural areas of equity.

Representative HAMILTON. Everybody is for them with various conditions attached. There are several words that have been recurring in these hearings. There is a concern about the transition period and the cuts which I think everybody agrees will lead to some reduction of services, the need for greater accountability, the need for more consultation, public hearings and the like.

You gentlemen are all experts in federalism. I would like to begin our session here by getting some idea of the direction you think we ought to head in this country in the distribution of powers between or among the several governments. One of the criticisms we had made last week was—by the academic experts—that these block grant programs do not have any coherent theory of federalism backing them.

Too much is ad hoc, too much is just thrown together without any guiding principles backing it.

Mr. Gibbs, you spoke a moment ago about the idea that the Federal Government should maintain a dominant role in the entitlement programs. That is one principle your group, the National Association of Counties, would favor?

What about some other principles that ought to be stated in the congressional establishment of block grant programs? What direction ought we to be going in terms of block grants programs in this country? What principles are inherent in that direction? Speak up as you choose. We won't go down the line in each case. I will recognize whoever wants to talk.

Mr. FARBER. Mr. Chairman.

Representative HAMILTON. Mr. Farber.

Mr. FARBER. Mr. Chairman, I think we would agree with the National Association of Counties about the importance of income security policy with regard to a continued strong Federal role.

Representative HAMILTON. Strong or sole?

Mr. FARBER. We think it should be primarily a Federal role. It is part of what some of the witnesses you heard last week describe as a sorting out process. Quite apart from the block grant approach, it is the Governors' strong belief that a sorting out process in this country should occur.

Representative HAMILTON. Is it correct to say that the Governors believe that the welfare function ought to be taken over by the Federal Government?

Mr. FARBER. Yes; AFDC and medicaid should be taken over by the Federal Government.

Representative HAMILTON. Medicaid?

Mr. FARBER. Yes; the two major Federal-State programs in the income security field are medicaid and AFDC. Our concern is that a move to reduce rather than increase Federal participation in those programs will be a move in the wrong direction and inconsistent with a sorting out agenda that should place primary State and local responsibilities in the fields of education, transportation, law enforcement, community development, and other areas.

Now these fields are not totally State and local or totally Federal. But we are talking about primary responsibilities, and the

Governors strongly believe that the primary Federal responsibility ought to be in the income security field.

Representative HAMILTON. That is the expensive one.

Mr. FARBER. It is an expensive one, but it is certainly not more expensive than many of the functions that State and local governments have the preeminent responsibility in today. Education is extremely expensive. The Interstate System and other road problems have made transportation an expensive area as well.

Representative HAMILTON. You don't want us to get rid of that interstate highway program, do you?

Mr. FARBER. Not at all. The interstate highway program is one in which in every State we are facing increasing problems, but one in which the Governors are prepared to look at an increased responsibility if there can be an exchange. Sorting out must not be permitted to become a one-way street.

Representative HAMILTON. How about the rest of you? Does anyone want to comment on the general direction of federalism? Mr. Thomas.

Mr. THOMAS. Mr. Chairman, it is my rather strong feeling that the citizenry of Midwest America and I suspect the citizenry as a whole have a common concept that there is too much regulation emanating from Washington and that control of their affairs of life should be more locally located.

You could argue whether it be at the State or even more local level, but at least out of Washington.

Representative HAMILTON. That is not the first time we have heard that. [Laughter.]

Mr. THOMAS. All of us have heard it in every Presidential election by each candidate regardless of his or her party for sometime. I observe the rhetoric of congressmen back home as well as State candidates.

Representative HAMILTON. I won't take that too personally. [Laughter.]

Mr. THOMAS. So when you ask what should we do, I think the public is crying for decentralization. Now, the block grant approach I believe is one such concept and I think that perhaps the administration's response to that and the recommendation is in response to that request of the local citizenry.

So at least, whether the citizenry are correct or incorrect, at least they have a feeling that if there is less Washington to control, that things will be better off. I know I am right here in Washington saying it.

Representative HAMILTON. Do you agree with Mr. Farber that the welfare function ought to be taken over by the Federal Government?

Mr. THOMAS. I agree with him. I think it is already turned over to the Federal Government, basically. There are certain things that concern us nationwide much more than other things. If we get into housing, we get into local energy situations, that may apply more locally. But there are certain things that affect us because we move around so much.

Maybe there is too much welfare shopping. At least there is a feeling among the general citizenry that there is. There are things that the Federal Government can do better than the States, but that doesn't mean they can do everything better than the States.

Representative HAMILTON. Mr. Beals.

Mr. BEALS. The National League of Cities has a policy that is almost identical to that articulated by Mr. Farber in terms of income maintenance and health. Perhaps one breakdown to look at would be to say an appropriate Federal role is in the income maintenance and the health fields.

Services to individuals perhaps should be focused more at the State level, things like social services, education, and so forth. Things like community and economic development, housing, and so forth, should be viewed primarily as local responsibilities.

I agree with Steve that we need to do a lot of work at all levels in sorting out these various problems associated with the federal system. Some of that, of course, is going on and it appears that there will be a lot of increased attention to it now and in the next several years. But from our point of view, we do feel strongly that the welfare and health functions are appropriately a Federal responsibility.

Representative HAMILTON. Mr. Gunther and after Mr. Gunther, Mr. Gibbs.

Mr. GUNTHER. Mr. Chairman, several years ago, the cities, the counties, the States, including the legislatures and the Governors, got together through our organizations and we all agreed on this income maintenance proposal. The proposition was that the Federal Government would basically fund welfare and help the poor and that the States would then be able to take over a greater part of education and we at the local level would have more resources left to do the things we need to.

All of this was going along pretty well as an idea. The problem is we have to recognize that the President of the United States is absolutely opposed to this recommendation from the Governors Conference, the League of Cities, the Conference of Mayors, and the State legislatures.

He has said he is opposed to this. He was on the ACIR when this question came up and he spoke against and voted against it.

It is nice to say what we would like to do in federalism, but we know that we have a President who is opposed to this whole basic thrust. Therefore, I would like to suggest that in looking at block grants or grant consolidation, we really ought to examine how you put things together.

The block grants before Congress now which are not included in either the House or the Senate reconciliation resolution were put together from a management point of view.

Whether it had anything to do with it or not, all health went one place and all of education went another. The people who knew something about the subjects were not involved in that.

It was done at OMB and they pride themselves on management, and not knowing what they are doing.

We think that they got some things in categories they don't belong in. I would suggest that when you look at block grants, you ought to look at what are national responsibilities. Obviously income maintenance. We have all agreed on that. And help for the poor.

But is basic nutrition a national concern? Is this something that Congress is concerned about? I would say it is. At least, you have passed a lot of laws saying it is. Well, I could put your nutrition programs probably in a consolidated block grant. They are not now. As you know, they are spread all over the land.

If you are going to continue in the environment field, in water and air, you could combine those. But the big problem we have in those fields is that you pass laws with great concern, but you don't provide block grants. What you provide is orders that come down through the Federal courts based on the Federal laws that we have to comply with without money.

Certainly I think you should look into areas where you want to mandate national policies as areas in which you should provide block grant money.

Representative HAMILTON. I want to come back to your point on consultation with local governments. But we will come back to that in a moment. Mr. Gibbs.

Mr. GIBBS. I would like to add a point concerning the sorting-out process, to assure that a sorting-out process takes place between State and local governments. When you look at the block grant design, local governments are not in the arena to negotiate. Clearly, it is a State-controlled situation.

I think our concern if we are serious about intergovernmental processes, is that we need to recognize that cities and counties exist and that they need to be integrated into the block grant concept and that local elected officials must be consulted in how the formulas are to be designed and what the purposes of those block grants are to be.

I think you can look to an example in Minnesota which has been fairly progressive I think in the block grant concept. They have moved toward working with the local officials in designing a block grant to the counties within that State in the area of social services and mental health.

I think that is an example of where we can look to that cooperative effort is taking place.

Representative HAMILTON. How does that work? That was one of the central points you made.

You want to get the local governments integrated into the block grant process. How do you do that?

Mr. GIBBS. The Governor formed a group of officials, county officials and citizens, to provide input. A formula was designed in that State. I think it was based on population. Each county receives a certain amount of money each year for social services to do with as they see fit within the parameters of those block grants.

One of the things the State is encouraging is multicounty initiatives with social service dollars. But it is up to the counties to do as they see fit.

Representative HAMILTON. Is that a new program?

Mr. GIBBS. Yes.

Representative HAMILTON. Do you like that idea, Mr. Gunther?

Mr. GUNTHER. It works all right in Minnesota, probably, but in Illinois, about 30 percent of the money that went to the State in human services money was dispensed by—given by the State to cities, counties, and private nonprofits.

The Governor has announced and a lot of them found out about it in the newspaper, that because of the Federal cuts, there will be no money for city, county, and private nonprofit initiated programs next year.

So they did not have the consultative process they did in Minnesota where they were called in and worked this out.

But when the money was cut, the Governor told the cities you get no money next year.

Representative HAMILTON. You are concerned about what might happen in all this, aren't you, Mr. Tsutras?

Mr. TSUTRAS. Very much so. I don't think you can address these concerns in one broad discussion because as you become involved in them, constituencies for energy, health, education, social services, development, and possibly later, housing, get involved. There is quite a bit of concern here that goes back to the point that was made about OMB.

I think this should be an important part of the discussion. If you go back to April when the budget savings bible came out with all these proposed revisions in it, there was evidence there among the groups who worked in these different subject areas that there was a complete absence of consultation with them to find out what their experiences were.

Now these people who are seated here today in their respective subject areas are probably among the best in the country as far as the dialog and discussion. But there is reason to believe that within the Office of Management and Budget, they have taken it upon themselves to propose certain recommendations to the President and which he has proposed to the Congress.

As an example here last week, we had a meeting with the Secretary of HUD, and with all due respect to him, he stated that HUD had an effective delivery system, and those of us who have worked with HUD know better.

When you get into these specific items I think that the Office of Management and Budget, as the budgetary adviser or fiscal adviser to the President, should develop a more effective dialog with the Governors, State legislatures, cities, small cities, and rural areas.

One of the biggest questions that hasn't been addressed yet, it's not a matter of how you allocate and distribute the Federal dollar, it is the time element as when the State legislatures may have to assume that responsibility fiscally, rather than the Congress of the United States.

That's going to be a tough one for the States to address through the legislative process at the State level, not in Washington.

Representative HAMILTON. Under the block grants that are pending in the reconciliation conference—I'm correct, am I not—the States are the prime recipients of the money there? And that, I suspect, pleases the Governors, but may not please the cities and the counties too much. Is that correct? You're not overly enthusiastic about that?

Mr. GIBBS. In the maternal and child health proposal there is a minimum one-third passthrough to local governments in that block grant and also a 10-percent administrative cap. But it is not a part of the social services block grant.

Mr. FARBER. As I pointed out, Mr. Chairman, these are programs that have historically gone to the States, anyway.

Representative HAMILTON. So you don't see all that much change?

Mr. FARBER. Not in terms of funding patterns. In education, about 87 percent of the money in categoricals has been passed through by the States to local school districts, and the same thing will now apply with the block grant. So there really is no substantial change in funding patterns.

Mr. TSUTRAS. Mr. Chairman, one other thing to consider, Steve had mentioned the part about title XVI. Title XVI is the only thing in that package that mentioned the word rural. There is a provision in there for parity. This is something that was put in.

As I understand, it is in the House version. I don't think it is in the Senate provisions. But there has been some dialog to the effect that this would be an important matter for rural areas, because it addresses the distribution of funds and it also requires the reporting and possibly some auditing concepts that might be involved in the use of the funds.

Representative HAMILTON. That's the provision that says that if the States cut a program more than 50 percent, they have to document it. Is that right?

Mr. TSUTRAS. The specific language, I don't have it here.

Mr. FARBER. I believe what title XVI says is that if the program is effective, it may not be defunded, with the exception——

Representative HAMILTON. Categorical grant program?

Mr. FARBER. Yes; if a current categorical or, as I understand it, if a specific project is effective, then it may not be defunded, except with an appeals process. Our concern is that this approach would moot not only the meaning and effectiveness of the block grants, but it could tie up the flow of funds to jurisdictions large and small and to projects large and small in the courts.

Our concern is that it is fundamentally an unworkable provision, notwithstanding its objectives.

Mr. THOMAS. I would say on behalf of the States that we agree with that. If we have that kind of language, it was put in in the House and I understand it may be taken out. There is some language I understand that's been worked up even as late as yesterday that may change that. If that should happen, there will be a great deal of money going into litigation and hearings and what not when we need to conserve what money we have for the programs for which the money is intended. I would hope on behalf of the State legislatures and the State government and the recipients for which this money would come that the House's version of title XVI would be amended.

Representative HAMILTON. Yes, Mr. Farber.

Mr. FARBER. If I might say one word about the consultative process, it seems to me that the essence of politics is communication and consultation, and that it is inconceivable that relationships between State governments and local governments could proceed without consultation on matters of import, such as those associated with the block grants.

What the Governor of Minnesota has done is being replicated in States across the country. That, it seems to me, is the essence of the political process. It does not seem to us to be necessary for officials in Washington to suggest to State and local officials how and under what circumstances they must consult with each other. They do it all the time, and they certainly will do it in the context——

Representative HAMILTON. You don't see any need to put any requirement in the block grant for that?

Mr. FARBER. There is no need for a specific requirement because it is inevitable that it will occur in the States.

Representative HAMILTON. Mr. Gunther was complaining that it didn't occur up here.

Mr. FARBER. I think what Mr. Gunther is referring to has to do not with the block grants, but with specific funding cuts and the impact those cuts will have on States and local governments, whether or not there are block grants.

Representative HAMILTON. What he referred to was that there was no consultation in drafting the block grant proposals here.

Mr. FARBER. I think he referred to the fact that there are Federal budget cuts that will have an impact in Illinois, as indeed they will in all States, and that there will be, needless to say, reductions in services resulting from the budget cuts that have nothing to do with whether or not there will be block grants. I can't comment further on the specifics of the Illinois situation.

Mr. GIBBS. I would just like to say, Mr. Chairman, that coming from our annual conference in Louisville, our membership of elected officials are adamant that there be some conditions in the block grant of this consultative process. Some States are progressive in involving local elected officials but as bureaucracies move and programs develop, things happen and people are not consulted. Some States are progressive but our membership is adamant that we seek to get those kinds of conditions in the block grants.

Mr. BEALS. The National League of Cities feels the same way. The practice is uneven. There are some excellent States and some poor States.

Mr. GIBBS. Our membership stated that they are the ones accountable in the end. When the services are cut people will go to their county commissioner and the mayor for an answer to what is happening. They will soon forget about Washington and the Federal bureaucracies and they will have to be the ones to respond.

Mr. TSUTRAS. I think the very fact that these gentlemen have raised these questions is indicative and proves that within the Office of Management and Budget and those within the administration who have proposed these block grants, they have failed to initiate and conduct the proper type of dialog with the people who are going to be involved in the administration of these programs.

Even from the standpoint of a Member of Congress, which I brought this out in my report and I labeled it as a partisan-type thing, it is difficult even now for a Member of the House to know what's going on in his or her congressional district because of the way certain things are allocated. It would be even more difficult under this type of a program for a Member of Congress to know what he or she has been voting on or has voted on, because there is no responsibility on the other end to really bring back this type of dialog. So it is very important that the communications process be firm. It shouldn't be dictated to the Governors and the mayors by any stretch of the imagination, but there should be some language in that legislation which says, we want you all to talk to each other before we start this type of program.

I think then people in small cities and rural areas may feel more comfortable because we have been shut out not only in this administration but even in the past administration. So it is not a partisan political matter or discussion.

Representative HAMILTON. Does anyone agree with the recommendation that 30 percent be set aside for rural areas, as Mr. Tsutras suggested?

Mr. TSUTRAS. I might add that my chairman, Congressman Watkins, is very much insistent on that. We are even looking at the block grants to figure out how to amend them after we finally do what we are supposed to do up here to assure such consideration.

Mr. THOMAS. Mr. Chairman, speaking again as a State legislator, I am somewhat disturbed to hear the concern raised by some of the speakers here that in some of the States at least, there will not be a consultative process between the States and the local units of government, whether they be cultural, county, town, city, whatever. It is certainly contemplated by the legislators, I am sure, and I have heard nothing to the contrary. If they feel better with something being in there as guidelines, something mandatory in there, that is what we are going to do anyway. That is what we plan to do. We have that responsibility. I am not aware of a State where they do not take into consideration the wishes of the components, whether it is a county, a town or Podunk, 500 population. However, somebody has to finally make a decision somewhere along the line. It is our feeling that the States having the responsibility of administering the programs and authorizing the tax levies that we do, that that is the best place for the final decision to be made.

Representative HAMILTON. Let me ask you, Mr. Thomas, on these block grants that are proposed, how you think the State legislatures will go about the allocation of funds within a given block grant? For example, one of the block grants that is proposed in the conference committee relates to health. There are actually two block grants, I think. But if you look at the variety of programs that are now to be folded into the block grants, you have got programs on migrant health, maternal and child health, hemophilia services, sudden infant death, black lung, drug abuse, alcoholism, high blood pressure control, venereal disease, rodent control, lead-based paint poisoning, family planning, and on and on.

I think all of us acknowledge that we have got too many categorical grant programs and it is well to consolidate a number of these. But these interest groups—and there are many of them connected with each one of the categoricals I have identified—are going to come charging now at the State Governors and State legislators and you are going to have to make judgments as to how this money is to be allocated among the interest groups. Would it be the intent of the State legislatures to develop legislation that will allocate the block grant funds in some way among these various groups? How are you going to make those judgments? I guess that is the question.

Mr. THOMAS. Mr. Congressman, we in the legislature in Indiana and I am sure elsewhere have many of those same subject matters right now that we make State appropriations for to various State departments. I would say at least half, maybe more of those specific items that you have, we in the legislature appropriate x number of dollars each time we adopt a budget for certain programs there. The thing that is most disturbing is to go back and find out that our local communities, whether it is a city or town or whatever, is getting some type of a Federal grant under the present setup which we are talking about going away from, for some of the same things that we have appropriated for on the State level.

The problem is that some of the local mayors, for example, may know their Congressman better than they know the State legislator or they may have some direct contact so they on the side go and get things. It may be needed, but it throws it off kilter on giving the cities of Columbus, Indianapolis, or Terre Haute or Gary, to be appropriating money on the local level when those cities are getting money for things from the State level.

Representative HAMILTON. This would put additional funds into the pot?

Mr. THOMAS. The answer is "Yes." You have several there which I am not knowledgeable sufficiently to make a statement on, but many of them, I would.

Representative HAMILTON. The way this block grant is now set up, the money is actually distributed by the Governor. As far as I can see, it is the Governor who calls the shots, isn't it, on the block grants that are being proposed? It is up to the governor right now, isn't it?

Mr. TSUTRAS. The chief executive officer.

Representative HAMILTON. That is without any participation by the legislature. So you asked the question what was going to happen as you go down the road, as you get more experience with this. You think the State legislatures will become involved in that process and will develop what we would call authorizing legislation, to allocate the block grant funds?

Mr. THOMAS. It would be an appropriation for which the executive branch would perform administrative functions.

Mr. GUNTHER. Let me talk about one program. The House passed it several times. It is rodent control. If you want to get rid of rodent control, put it in that block grant and it will be done away with.

Representative HAMILTON. So a number of programs aren't going to be able to maintain viability at the State level?

Mr. GUNTHER. I think that is correct. It will not have a high enough priority to be funded.

Mr. TSUTRAS. Mr. Chairman, you might want to consider—we have addressed this in my prepared statement—what happens within the State if a State elects not to continue a particular type of program? Now, you have to go beyond Indiana and my home State of West Virginia or other parts of the country. There are programs in Indiana or West Virginia that might be very important to us, but when you get out to other parts of the country they may low-key it, which means that possibly you may lose some of the emphasis.

One of the questions raised by the National Association of Farmworkers Organization was the mobility of the farmworkers. In West Virginia, we may not have a problem, but in Florida or some place else, it might be a serious matter. Again, the need for coordination and communication is very essential.

At the present time, the role of the State legislatures has not been as realistic as it could or should be in the process of legislative intent at the State level. Again, Members of Congress are going to be sitting up here voting for money as bankers and the bankers in this case are going to be the Governors. The Governors are going to be writing the checks. So, again, the need for coordination and communication is very essential.

Representative HAMILTON. Are you gentlemen bothered at all by the principle that the Federal Government raises the money and the State govenments get to spend it under the block grant concept? Does that offend your sense of sound principles of public administration?

Mr. GUNTHER. Mr. Chairman, as I said in my prepared statement, I am talking about sound public administration. As a lobbist, I think it is going to be hard to come up here and get you people to appropriate the money if you haven't set a national purpose down. In the long run—I have only been here since 1946, and I only have about 10 years to go as a lobbyist; it bothers me—I don't know how you argue for these appropriations if there is no national purpose.

Representative HAMILTON. Your judgment might be, then that because of that, Congress will be less apt to appropriate money for a block grant which does not have much appeal, whereas rodent control might have a lot of appeal.

Mr. GUNTHER. We have had one big battle to keep general revenue sharing going. I suggested in my prepared statement that we did have a national purpose and that was to bring some progressivity into local taxes.

Our witnesses testified before Ways and Means that the property taxes were forcing people out of town. I think that was a national purpose. But to make everything sound like revenue sharing, it is going to be very hard. People are not very happy with revenue sharing, at least a lot of your colleagues. To make everything look like that, I think we are going to have trouble.

Mr. BEALS. In my statement, Mr. Chairman, I pointed out that some of the key questions here have to do with who gets the money. The Congress will determine who gets the money. And what are the purposes for which it will be used? This is an area that we think needs strengthening in the current proposals before the Congress, what are the objectives? Congress must be in a position to evaluate the effectiveness of those programs and it can't do so without doing a good job on specifying objectives.

Representative HAMILTON. Let me ask one other question. As I understand the President's view of block grants, he really looks upon the block grant program as an intermediate step and his preference is to turn back to the State and local government money from the Federal Government, what he calls the tax sources, so that you would have the State legislatures eventually having to enact tax increases to provide sources of funding for these programs. Under the President's concept, presumably there would be some reduction of the burden at the Federal level.

Do any of you or do your groups share that view of the President's block grant proposal, that it ought to be an intermediate step to an eventual turning back of the the sources of revenue to the governments, or haven't you engaged that question?

Mr. GIBBS. I think a lot of us assumed that block grants as currently designed are going to be a phaseout.

Representative HAMILTON. Of what?

Mr. GIBBS. Of future funding. There will be a turn back of program responsibility and the responsibility to generate revenues in relationship to needs.

The Federal Government will no longer dictate what those needs will be, either mental health or whatever.

The block grants are a means to that kind of a phase-in. In looking at the block grant design, in 3 or 4 years I think it would be difficult to determine the effectiveness of the block grants because there is no evaluation mechanism built into them.

When Congress comes back in 3 or 4 years and says what is the effectiveness of the social services block grant in the area of aging nobody will be able to tell you that. The merits of that block grant will not be able to be measured because every State will be doing something different.

It is many people's conception that there will be a phaseout and a return of total responsibility to State and local governments.

Mr. THOMAS. I am sure that State legislators will be very diverse in their opinions in regard to whether that is something we should anticipate with enthusiasm. I think the fear would be that the States might be put into a position where we must enact tax increases without having the corresponding decrease in the Federal taxes or the Federal tax base, as the case may be.

Then I think both Federal and State officials would bear the brunt of the attack of the citizenry. If there were a realistic approach where that would actually come about and the citizens were convinced of it, but that there was something tangible to show it, they might accept that because I think that generally people believe that the government can be best administered on a State and local level.

I may be wrong but I believe that is a common concept. The fear is that if we don't have one tax, there is going to be an increase in something else. A lot of the citizens don't understand that it is Congress that has to do with Federal income tax or the social security because I have been requested numerous times by constituents, why don't you do something about lowering taxes, and when I ask, they are talking about the Federal income tax or social security tax over which we have no concern.

I am sure as a Congressman are criticized the same way by your constituents when we do something with the sales tax or the gross income tax back home.

Mr. FARBER. Mr. Chairman, I think it is fair to say that there is not much specific detail yet on the concept of returning tax sources. The Congress is about to adopt a 3-year budget plan to take effect October 1, and there is no provision in that 3-year plan for any kind of proposal to return tax sources.

At the same time definitional questions of different kinds are extremely difficult. My understanding is that the administration is working on a number of options. I think all of us are prepared to be of assistance in that effort. But at the present time there are no precise answers as to what returning tax sources would involve.

Representative HAMILTON. Have the Governors engaged that question?

Mr. FARBER. We are engaging it now. There have been a number of different proposals that we are examining involving estate taxes, a portion of the corporate tax, indeed, a portion of the Federal income tax itself. The explorations are in the initial stage right now, and we will be doing more work on it.

With regard to national purpose, if I might add one word, Mr. Chairman. I think the comments of my colleagues have been useful. Revenue sharing is a program that has a national purpose problem, but I don't think it is a greater or smaller problem than the block grants would have.

I know that one of the Governors has looked at the health block grants and said, in my State, infant mortality is the problem that I would rank as the most serious health problems. If I had the opportunity, then I would place more than what the categorical program for infant mortality permits me to place into that area. And I would do so because I believe that that would have the greatest impact and do the greatest good in my State.

Representative HAMILTON. Should the Governor make that decision all by himself?

Mr. FARBER. I think what will occur is that the normal processes in the State as between the Governor and the legislature will obtain. States differ with respect to the appropriation of Federal funds. But whatever processes now obtain in given States will obtain.

Representative HAMILTON. Wouldn't that include the legislature in every State?

Mr. FARBER. The legislature is involved, but they are involved to varying degrees in different States.

Representative HAMILTON. You don't advocate just giving all this money to the Governor and letting him distribute it as he will, do you?

Mr. FARBER. What we advocate as a policy, and what the National Conference of State Legislatures advocates as well, is that the Federal Government should not make that decision but that the normal State processes should be the ones that obtain. Those procedures do vary substantially from State to State.

Representative HAMILTON. But in none of them do they exclude the legislature?

Mr. FARBER. No; in some States like Pennsylvania there is full legislative appropriation of Federal funds. But in other States that process occurs to a much lesser degree. We do not believe that the Federal Government should determine the relationships between Governors and legislatures in different States.

Representative HAMILTON. Mr. Gibbs.

Mr. GIBBS. Just in reaction to the direction we are moving to in federalism, I think Bob Carlson in the White House has a pretty good perspective on it in seeking to implement the block grants. I do not believe it is in concrete at this time. There is a Federal task force under the direction of Senator Laxalt which is seeking to address the future of federalism. I think there are seven categories that have been outlined by that task force to be addressed.

Primary to that is revenues and the return of revenues.

Representative HAMILTON. Do any of you see the problem of recreeping categorization coming up? A number of our witnesses last week commented on this. You give the block grants to the States and the Governors. The States and the Governors begin to work on how you allocate those funds.

They make a lot of decisions and those decisions require categories of how the money is to be allocated. So instead of getting one group of categorizations by the Federal Government, what you get is 50 groups of categorizations by the several States over a period of years. How do you avoid that problem or is that where you want to go?

Mr. GIBBS. I think the issue of the Minnesota experience might be one resolution to that, that within the confines of the block grant, there is discretion at the local level to expend funds that are responsive to the problems.

Representative HAMILTON. The problem of creeping categorization doesn't bother you?

Mr. GIBBS. Yes; but if a certain structure is in place, that can be prevented.

Representative HAMILTON. In any event, we in the Congress ought not to worry about that? Is that right? Would that be your view generally?

Mr. TSUTRAS. I disagree. I think that without unanimity and direction from the congressional and executive people involved, that these folks are going to find themselves in one very frustrating experience. I think in the process that this frustration, many of the people who live in the small cities and rural areas are going to feel the pain more than those who live in the big cities.

That is a personal feeling.

Only time can tell whether I am right or wrong.

Representative HAMILTON. One of the aspects of block grants which you seem to be agreed upon is that the States really do now have the capabilities to deal effectively with them.

Many of you spoke about professionalism and modernization in the States. I take it the whole question whether or not the States have the administrative capacity and the infrastructure and all the rest to deal with block grants is not a matter of great concern. You do have confidence in it? Mr. Thomas, you spoke to that point.

Mr. THOMAS. If I, Mr. Chairman, said that we have those capabilities in place now, I didn't intend to infer that we have those in place. I think we have the capability. I think with some transition time, I——

Representative HAMILTON. All of you think we need a transition period of 1 to 2 years, I gather.

Mr. THOMAS. I feel we need a year.

Representative HAMILTON. Does that mean a year before any funds come to you?

Mr. THOMAS. No; a maximum of a year. We have talked about this. We think it can be on board perhaps by the end of this year. Some States have their legislatures in session now and may well have ample time to do it. Many of us will not be able to address it without some extended time in a special session until the first of next year.

But I would think that many of the States would be able to take care of this within 3 to 5 months into 1982. But we would like to have until October 1, 1982.

Mr. FARBER. There is transition language in the Senate version of the health block grants. Our feeling is that there should be a reasonable flexible transition mechanism that will enable those States that wish to proceed on October 1, to be able to do so, but with respect to certain States with respect to certain programs, if there is a wish to take a little bit more time, that opportunity ought to be made available.

Mr. GUNTHER. Particularly with respect to a block grant we haven't discussed here because we have concentrated on the others, I would say it would be a gross overstatement to suggest that the States are prepared to take over CDBG for small towns.

Representative HAMILTON. Community development block grants?

Mr. GUNTHER. Correct.

Representative HAMILTON. Why do you say that?

Mr. GUNTHER. Because they have had no experience in the field and the whole concept of it was to put emphasis on low- and moderate-income people and to help them. States do not target that way. I have a whole list here.

Three or four States do not target rehabilitation incentives to distressed areas; 39 States do not target economic redevelopment systems to distressed areas; 45 States do not distribute use of industrial redevelopment bonds to distressed areas; 36 do not have neighborhood improvement programs. So, those places are not ready.

Mr. FARBER. Mr. Chairman, we respectfully disagree.

Mr. GUNTHER. ACIR report——

Representative HAMILTON. That's the basis of your——

Mr. GUNTHER. Yes.

Mr. FARBER. I believe the ACIR report has been badly misread and misused with respect to data of that kind. There is much in the ACIR report itself to sustain the case that the States for many years have initiated and undertaken extensive programs of economic and community development.

This is certainly not true universally nor is it true in every program area. But the history of specific program-related activities is an extensive history, and it is our view that in States like Indiana, in which the former Lieutenant Governor, currently the Governor, for years was in charge of the economic development board, and in States like New Jersey, where I served as executive assistant to the Governor in the formation of urban assistance strategies, there is extensive evidence that States are ready, willing and able to take on this kind of role.

Representative HAMILTON. Any other comments on that, gentlemen?

Mr. THOMAS. I would just say, Mr. Chairman, that I'm not sure about those statistics. But Indiana has appropriated funds for those programs, at least most of those programs. I don't say if they are accurate or inaccurate generally, but they are inaccurate as far as my State is concerned.

Representative HAMILTON. Let me ask you to elaborate briefly on your views about the cutback in services. I had the general impression that each of you think there will be some cutbacks in services. I wonder if you, any of you, would care to be more specific on that, or would say what kinds of problems might arise from that. Do any of you want to comment more specifically on the cutbacks?

Mr. GIBBS. Our major concern is the fact that it is going to be taking place at the local level.

Representative HAMILTON. I didn't hear that.

Mr. GIBBS. We are concerned about the cumulative effect of the cut and the impact at the local level. We are concerned about cutbacks in the area of medicaid, food stamps, and energy. We believe that there will be a displacement of individuals from Federal programs to local general assistance programs which are locally funded through the property tax. In addition to the 25- to 35-percent reduction to the block grants, clearly there is going to be a reduction in service and staffs are going to have to be laid off. In the title XX program, in many counties it is up to one-third of the staff made up of title XX workers. Many of them are preparing to relieve staff at this time.

Representative HAMILTON. Did I understand that the National Conference of State Legislators is opposed to the 25-percent reduction? Is that what you said, Mr. Thomas?

Mr. THOMAS. I don't think I said we are opposed to it. We are concerned about it because we feel realistically there will be some decrease in services. We can't make up all of that. We feel we can make up some because we believe we can take over administration of most of these with no increase or very minimal increase in State staffing.

But certainly, we can't absorb all of that. We feel we are probably going to have to supplement some of these programs, at least the next couple of years.

Representative HAMILTON. We had a JEC staff report just recently issued which suggests that many local governments are suffering a great deal of fiscal stress already, even before the cuts go into effect. So, what might be expected in the cities from these kind of cuts?

What types of program are going to be cut out and what kinds of impact will that have? Can you gentlemen who represent the cities comment on that specifically?

Mr. BEALS. We are in difficult straits, particularly the older central cities of the United States. These cuts are going to have great impacts—because they have high proportions of individuals who depend on social services and on the other programs being cut back. It is going to pose some real burdens.

One of our concerns about the question of consultation in the development of these plans under the block grant programs with the States is that we get a fair share, that there is equity in the distribution formulas so that the historical users are adequately reflected in the implementation of these programs.

Clearly, there are going to be some major problems for cities. These cuts are not the only problems that we are suffering with. In the tax bill going through, the "all saver" certificate is going to cost us $6 billion. That's going to have a devastating effect on the municipal bond market.

Representative HAMILTON. Investments will flow into the S. & L.'s, not into municipal bonds.

Mr. BEALS. They will shift out of municipal bonds. It's going to destroy our markets at a time when we have serious financing needs. Our market may be destroyed and it is going to cost us billions of dollars in financing costs on top of these program cuts.

Representative HAMILTON. So you get a "double whammy."

Mr. GUNTHER. We did a 100-city survey on what the cities were going to do as a result of this budget. We would be happy to submit a copy of that for the record.

Representative HAMILTON. Yes; we would like to have it, without objection.

Mr. GUNTHER. The cuts they are making in services or staff or whatever.

Mr. BEALS. The other problem is that there has been an erosion of local home rule authority in the States.

Only about half the States have general home rule authority, including fiscal authority. We have seen the growth of tax lists and caps of one sort or another in the last 4 or 5 years that are set at such artificially low levels that there is no way for communities to do the job of raising the revenues that their cities might reasonably want raised to meet the service levels that they expect.

A 5-percent cap in New Jersey and, as you know, a 2½-percent cap in Massachusetts, resulting in a $600 million loss to local governments in that State. Proposition 13 in California; it goes on and on. About half the States are into this business. We are caught in a terrible whammy with the loss of fiscal authority and the erosion of home rule power at the local level in terms of our State and local relationships.

Mr. TSUTRAS. Mr. Chairman, with regard to what he mentioned about the 100 cities they are going to be studying, I would like to add for the record that we have made telephone calls to the Office of Policy Studies, the General Accounting Office, and several agencies asking if anyone had conducted any type of impact evaluation of the budget cuts in small cities and rural areas of the country.

The response was rather negative. Not even the Department of Agriculture, which has the lead responsibility for rural development in the country by statute, has been able to do anything about it because of the tremendous cuts in budget. Farmers Home Administration has been gutted by virtue of budget cuts in the name of fiscal sanity.

At the same time, we are told that there are other programs, other sources, and that we are going to pick it up through other types of programs for the rural areas of the country. This has not been the case. Consequently, this concern again is expressed on the part of the small cities and rural areas.

Representative HAMILTON. Gentlemen, I have got a markup of a bill in a few minutes and I'm going to have to attend it.

I want to give each one of you an opportunity to make any comments for the good of the order if you would like to do so.

Maybe you have already said all you want to say. But if there is some point you think you would like to make for the record, now is the time to do it. Sir? Mr. Thomas.

Mr. THOMAS. I would be remiss if I didn't express the gratitude of the citizens of the State of Indiana for your leadership here in the U.S. Congress. That leadership, as the record well shows, is bipartisan and I wanted to express that.

Representative HAMILTON. You are very kind. I did not plant that remark. [Laughter.]

All of you came to us as experts on federalism and the role of the cities, counties, and States.

I was told beforehand that you would be quite expert in your comments. You have given us a good record here this afternoon. I appreciate it very, very much. The subcommittee stands adjourned.

[Whereupon, at 3:23 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

THE FY82 BUDGET AND THE CITIES

A Hundred City Survey

May 1, 1981

United States
Conference of Mayors

INTRODUCTION

Serious fiscal conditions and major reductions in a wide range of city programs are forecast by Mayors around the country, according to a survey of 100 cities conducted by the U.S. Conference of Mayors in April 1981.

The survey was designed to determine the likely impact of the Reagan Administration's FY82 budget on cities. Specifically, cities were asked to estimate the effect of the federal budget cuts on their own local budgets, their transportation programs, economic revitalization and employment efforts, education, and their local communities in general.

All of the 100 cities surveyed cited at least some adverse effects of the Reagan proposals. Fully 70 percent of all cities said they are currently laying off CETA workers and nearly all cities predicted major layoffs next year. As high as 82 percent of the cities stated the budget would have a negative effect on poor people; 92 percent predicted negative effects on their educational programs. In many other program areas, too, the cities predicted serious results if the Reagan budget is adopted -- on public transportation programs, economic development, environmental protection, housing, and on their local budgets.

In addition, most cities described their overall fiscal situation for FY82 as chaotic. Well over half, 58 percent, figured it would be necessary to lay off workers and 68 percent predicted service cuts. These and other reactions to the Reagan budget are summarized in more detail in the pages which follow.

The difficulties expected to result from federal budget cuts are not confined to any one geographic area or to larger cities only or to cities of any one socioeconomic makeup.

Designed to assess the effects of the Reagan budget on cities, the Conference of Mayors survey included 100 cities across 47 states, Washington, D.C., and Puerto Rico. Cities ranged in size from 38,000 to 7,300,000, and included the largest 50 cities plus 50 others selected at random from cities over 30,000 population, with some adjustment made to achieve a geographical distribution.

Table 1

Size of Cities Surveyed

Cities over 1,000,000	7
Cities over 500,000	15
Cities over 300,000	24
Cities over 100,000	37
Cities under 100,000	17

The Appendix contains a list of all cities surveyed, as well as a copy of the questionnaire. The survey was conducted by the staff of the Conference of Mayors from April 1 through April 17, 1981.

I. THE FY82 FISCAL SITUATION OF THE CITIES

The serious fiscal situation in cities across the country as a result of the Reagan budget cuts is shown in Table 2. In most cases the Reagan budget reductions threaten to make an already drastic situation worse. Well over half of the cities, 58 percent, reported that it will be necessary to lay off workers in FY82 and 68 percent predicted service decreases. Moreover, despite tax limitations in effect in many jurisdictions, fully 41 percent of the responding cities said it will be necessary to increase taxes in FY82 if the Reagan cuts are enacted. (See Table 2 and the Appendix.)

Cities with tax limitations, especially those in Massachusetts and California, are confronted with a much more restricted set of options than others. Some California cities predicted major increases in permits, fees and user charges, since they cannot raise property taxes under Proposition 13.

Many cities which have just raised taxes in the current fiscal year felt that tax increases next year are impossible. As a result, services will be cut. This multi-year dimension is important, since many cities have made cutbacks and laid off workers in several successive years. In the current fiscal year, FY81, many cities are already facing fiscal crises. The District of

Columbia fears there will be "payless paydays" by late summer. St. Paul, Minnesota has requested all departments to make 10 percent cuts in their budgets. Many other cities face similar situations.

Nearly all cities predicted that employees administering federal grant programs will be laid off. In addition, many cities anticipated additional layoffs of city personnel, including police, fire, and sanitation workers. One large city, not usually considered distressed, predicted the layoff of all CETA workers plus 300 city employees.

Many cities have still not decided what they will do in FY82, or analyzed the likely budget impact of the Reagan cuts. Yet, they nevertheless predict some loss which they will be unable to offset with their own funds. Thus, although they are uncertain about what course of action they will pursue, they recognize they will make tax and spending adjustments. For example, Baltimore predicts a total loss to the city of $250 million from the Reagan cuts, but has still not decided how the loss will be absorbed.

Nearly all jurisdictions expected some reductions and changes in services. Especially hard hit in the jurisdictions reporting will be capital expenditures for economic development, public transportation, environmental protection, and other programs. Some cities also said they will be forced to reduce services for "special needs" groups, raise transit fares, reduce matching funds for some federal programs, and make other adjustments to compensate for the cuts.

Many of the respondents pointed out that the Reagan budget would exacerbate an already serious fiscal crunch. There are many factors mentioned by cities affecting local revenues and expenditures, including declines in state aid, inflation, local tax limitations, unemployment, energy costs and the uncertainty surrounding the future performance of the economy. All of these economic forces, together with the Reagan proposals, undermine local governments' ability to plan their budgets and necessitate major fiscal adjustments.

Table 2

Cities' Budget Adjustments in FY82

	% Responding
Cut Services	68%
Lay off Workers	58%
Raise Taxes	41%

II. EMPLOYMENT PROGRAMS

The Reagan Administration has proposed to defer funds for CETA public service employees in FY81 and to eliminate completely all public service jobs - CETA Title IID and VI - in FY82. To evaluate the effects of these cutbacks on cities, respondents were asked whether they are currently laying off CETA workers and their best estimate of what will happen beginning October 1. Altogether, 70 percent of the cities said that they are currently laying off CETA public service employees. Only 21 cities were not yet involved in the lay off process. Eight of the cities surveyed had no public service employees; thus the question was not applicable to them.

Based on the data collected from 89 cities in the sample of cities, over 77,000 (77,192) CETA public service employees will be affected by the elimination of all CETA Title IID and Title VI programs. In 21 cities responding to this question, more than 1,000 workers in each will be laid off. (See Table 2 in Appendix.)

Given that there are 473 prime sponsors in the country, and that a total of 300,000 PSE participants are expected to be laid off, the data suggests that, at a minimum, 18 percent of the prime sponsors (all urban) will have to shoulder the burden of 26 percent of the total cuts in public service employment.

Some cities volunteered information that the loss of CETA jobs will mean the reduction or the elimination of such services as child care, health care, emergency shelters, and the closing of school libraries, and that the loss of jobs and the reduction or elimination of services will have a disproportionate affect on minorities and youth in these cities.

Eighty-six percent of the cities estimated that a majority of laid off PSE workers would have to go on welfare, unemployment compensation, or other forms of federal assistance. Many said that the whole effort is akin to "robbing Peter to pay Paul."

The Administration has also proposed reductions in some employment and training programs for youth. Because of these cutbacks, 68 percent of the cities said that they would not be able to maintain services to their youth populations without cutting services to other CETA participants.

III. PUBLIC TRANSPORTATION

Fare increases, ridership decreases, and reduced services are the likely result if the Administration's proposal to eliminate public transportation operating assistance is adopted. This spells trouble for the nation's urban transit systems.

The Administration has proposed that public transportation operating assistance, some $1.1 billion in fiscal year 1981, be phased out over fiscal year 1983 and 1984. Cities would receive sharply reduced funds to assist in operation of transit systems during those years -- and none at all after FY1984.

Though local governments already bear the major burden of financing their systems, dire consequences are predicted if the federal role is eliminated, as summarized below.

Table 3

Elimination of Transit Operating Assistance: The Urban Impact
(percent of cities responding)

46 percent will face substantial fare increases

20 percent will face moderate fare increases

65 percent will suffer significant ridership decreases

57 percent will reduce services

U.S. Conference of Mayors policy has called for retention of the operating assistance program with changes to bring about greater targetting and efficiency in the use of the funds.

Significantly, the impact of the proposed elimination knows no geographic or city size boundaries. One major northeastern rail system city sees a 40 percent fare increase over the current level of 65 cents. Another medium city in the Rocky Mountain region predicts a fare increase to 80 cents or one dollar over the current level of 40 cents. A Great Lakes university town looks for a doubling of fares, while a midwestern industrial city sees fare increases of up to 100 percent.

Significantly, fare increases are no guarantee to cities of an increase in revenues. Indeed, it could have the opposite effect -- decreasing revenues by driving people back into their automobiles. The example of one Pacific northwest city is instructive -- a fare increase instituted a year ago has resulted in a 10 percent decrease in ridership. One city estimates that a 33 percent fare increase yields a 6 percent ridership decrease.

Many cities expressed sentiments similar to one far western city which said, "If fares are increased, we may lose some riders, but it's hard to say. The important thing is that we will not be able to expand like we planned." Thus, just at the time when cities will need to provide for transit growth as gasoline prices continue their steep climb, they may find their efforts in this area stifled.

Public transportation is particularly important to the nation's low income urban residents -- they often have no alternative. Therefore, the impacts of elimination of operating assistance would hit them disproportionately. A northern California city says this: "Ridership would probably remain about the same on regular routes because poor residents must use public transit. They would have to absorb higher fares". The elderly are similarly affected, with one city estimating that 70 percent of its elderly population utilize the public transportation system.

Recent Conference of Mayors studies indicate that cities are now doing a substantial amount to sustain their transit systems with their own money. Of some 1300 urbanized areas, two-thirds have already raised fares in the first nine months of 1980. Cities all across the country have instituted or are planning earmarked taxes for public transportation. But the message of this survey seems clear: a continued federal role in some form of operating assistance program will be necessary to prevent significant transportation problems in cities.

IV. HOUSING

The Administration has proposed major reductions in subsidized housing programs - from 260,000 units in FY81 to 175,000 units in FY82. In addition, the Administration has proposed a rescission of $5 billion in FY81 authority.

To assess the impact of this cut, a question was asked about the likely impact on local housing programs. The communities responding were allocated 73,522 units of Section 8 assisted housing of varying types. This represents 28 percent of the total budgeted assistance in terms of units for Fiscal Year 1981.

With 92 of the cities responding, an overwhelming 74 percent of them characterized the impact of the proposed Section 8 cuts as very negative or substantial. The primary impact of the cuts would fall on lower income people, the elderly, and moderate income persons. Many communities pointed out that current resources are insufficient to meet current demand for subsidized housing. The proposed cuts will mean more delay in meeting these needs, and less hope of obtaining decent, affordable housing for lower income people.

In Boise, Idaho, for example, the city feels the cuts in Section 8 would have a major impact on the city's goals to meet housing demand among the elderly and single parent families. With an estimated need of

400 units, the city last year received only one-third the needed resources. Further cuts would set the city back even further. In Cleveland, Ohio, where the city last year received 575 units of assisted housing of various types, the proposed reductions could mean almost 200 fewer units. The city estimates this will affect 1,000 individuals in need of housing assistance. In Dade County, Florida, where there are already 23,500 people on the waiting list for subsidized housing assistance, a cut in aid would extend already long waits for assistance. Elizabeth, New Jersey last year received 395 units of assisted housing. The city estimates that people would have to move out of the city to find affordable housing as a result of cutbacks in aid.

Many cities also predicted serious results if the Section 312 Rehabilitation Program is terminated, as proposed by the Administration. Altogether, 92 percent of the cities had Section 312 allocations in FY81. The proposed total rescission of these funds would affect 7,465 units in these cities, representing the loss of $119.9 million in housing investment in those communities, using an average loan cost of $16,000 from the HUD budget summaries for FY81. Over 40 percent of the surveyed cities said that they do not have other resources to complete the rehabilitation which Section 312 would have funded. Of those who reported they would use other resources, the majority identified Community Development Block Grant funds as their probable funding source. Baton Rouge, Louisiana, which received an allocation for 10 units this year, said continuing the rehabilitation work with other resources would eliminate about half the Section 312 eligible recipients from participating, would halve the repayment period for the loans, and double the monthly payments. The City of Denver, Colorado received $1.2 million for Section 312 loans in FY81, $500,000 of it for multi-family rehab, and will not pick up the work with other funds if Section 312 is rescinded. Fresno, California, had planned to rehabilitate 37 homes this year with Section 312 funds. The rescission will force them to fall back on Community Development funds, which will restrict the other activities the jeopardized $300,000 could have financed.

V. COMMUNITY DEVELOPMENT

About 57 percent of the cities indicated that continuing reductions of funding for the Community Development Block Grant through inflation, and reduction of the Urban Development Action Grant Program would cause serious or substantial problems in their communities. Thirty-four of the cities said housing efforts, primarily for the poor, would be hampered or cut back. In the City of Fort Worth, officials estimated that 75 to 100 homes could not be rehabilitated as a result of such a decrease in funding. Twenty-two cities indicated that economic development programs, primarily designed to provide jobs for lower income persons, would suffer as a result of a 10 percent reduction. New Orleans said that its economic development program could come to a halt, and UDAG and CDBG reductions combined could cost the city as many as 15,000 jobs over the next three years.

Thirteen of the cities highlighted cuts in public services to lower income people as a likely effect of CDBG cutbacks. San Jose, California, predicted widespread cutbacks in services to lower income neighborhoods across the board.

In Toledo, Ohio, a 10 percent cutback would exacerbate current budget cutbacks which are leading to the reduction of their staff by 30-40 positions. Virtually all social service programs funded by CDBG would have to be curtailed. Housing rehabilitation grants have been cut by one-third from last year's levels; a 10 percent cut would mean even deeper cuts. Saint Paul, Minnesota, pointed out that its grant has already decreased from $19 million in 1977 to $10 million in 1980 because of formula changes. A 10 percent cut on top of this would aggravate current budget shortfalls. Louisville, Kentucky, would cut out of their CDBG program three or four Neighborhood Strategy Areas; they currently operate nine such areas. All city-wide CDBG funded projects, such as Emergency Housing Assistance, minority contractor training efforts, and assistance for the disabled, would be ended.

Erie, Pennsylvania, summed up the city's reactions to the cuts -- "Citizens will be the losers, particularly low and moderate income citizens." Duluth, Minnesota echoed that sentiment -- "Such a reduction will come out of the hide of lower income people."

VI. ECONOMIC DEVELOPMENT

The Reagan Administration has proposed to eliminate economic development programs administered by the Economic Development Administration. An overwhelming majority of the cities (81 out of 97 responding) have participated in EDA economic development programs. Fully 45 percent of the cities participating in EDA programs characterized the proposed cuts as having very serious or major impacts for their communities. Cleveland, Ohio, characterized the impact of the cuts as "disastrous," since it would lead to the termination of three EDA funded economic development staff in the city, and the halt to that community's economic development program. Fort Wayne, Indiana, reported that the cornerstone of its downtown development plans would not be completed if funds were cut off. Fort Worth, Texas, would lose six economic development staff. In Gulfport, Mississippi, the city lost a $230,480 grant because of the funding freeze now in effect. This has halted all development of its waterfront renewal, at the potential cost of 240 jobs.

Norfolk, Virginia, reported that the EDA cuts would cost the city between $3 million and $4 million in funds for slum clearance in low income areas. Oklahoma City, Oklahoma, said the impact of the cuts would be "dramatic."

Louisville, Kentucky, could lose key funding for the development of a downtown project slated to provide 500 new jobs for low income residents. In Dayton, Ohio, the city has lost EDA funds to finance major work on a major thoroughfare through the freeze. "We had letters of commitment from industries to stay because of plans to build this North-South connection," the city reported. "Not all of this is down the tubes."

VII. ENVIRONMENTAL POLLUTION

Major setbacks in the status of urban water quality programs is the likely result in almost half of the nation's cities if the Administration's proposed elimination of funding for the Wastewater Treatment Facilities Construction Grants program are upheld.

The Environmental Protection Agency's program, which assists metropolitan areas in the construction of facilities to treat sewage, has been funded at approximately $3.3 billion annually. The Administration has proposed a rescission of more than $1 billion for FY81 and no funds for FY82. Following passage of the Administration's amendments to the Clean Water Act, the Administration has stated that it would support a level of $2.4 billion annually. However, passage of these amendments are not assured. Therefore, no funds for FY1982, on top of a major FY81 rescission, is quite possible.

The extent and scope of the impacts on cities are profound, with 48 percent categorizing the cut in the Wastewater Treatment program as serious or disastrous. Cities predicted that if there is no funding for the program in FY82, the result will be a delay in many projects, impediments to meeting pollution standards, and injury to residential or economic growth.

Current authorizations for the program are $5.0 billion. U.S. Conference of Mayors policy calls for a substantial streamlining of the program, including greater targetting of funds to projects which are ready for construction.

The proposed cuts come at a particularly difficult time for the nation's cities -- many of them are under court order to complete construction of these facilities, requiring sums of money which far exceed the amount which would have been available if the fully authorized amount were appropriated.

A closer look at the survey results shows the wide-ranging nature of the problem. One Great Lakes City speaks for many by noting that a cut off of funds would mean "One hell of a mess." That city is in the middle of a project and also under court order. Another city declares that "Our ability to meet regulatory guidelines for pollution abatement will be jeapordized seriously ... the city will be unable to proceed with an interceptor and combined sewer overflow projects. These delays will have a negative effect on the water quality of Lake Erie which is just now beginning to realize the benefits of the past 10 years of EPA's program."

In some places new jobs are at stake. "We are close to capacity for treating certain pollutants," reports one industrial city, "without assistance we will have to tell certain industries they cannot locate here."

Some cities are finding that they simply cannot raise costs to city residents any further. Says one city: "Major improvements of the sanitary sewer distribution system will not and cannot be undertaken through additional costs to users."

The chorus includes such ominious phrases as those of a western city which declares that "the city's water program will come to a 'screeching halt,'" or the major Tennessee city which believes that "loss of these funds will have a larger impact on the city than all other cuts combined."

It is clear that cities view the Wastewater Treatment Construction Grants Program as a major help in improving urban water quality and stimulating residential and economic growth.

VIII. ENERGY

More than two-thirds of the nation's cities surveyed predict negative impacts on their cities as a result of the Administration's proposed cutback or elimination of energy conservation programs.

Almost 80 percent of those cities see an additional negative impact on their cities based on the Administration's complete decontrol of oil prices.

The Administration has proposed cutbacks or eliminations in such programs as low income energy assistance, low income weatherization, state and local energy conservation grants, the Solar and Energy Conservation Bank and many other programs designed to assist localities and their residents to deal with the energy costs. Thus, at the point in which energy prices have been decontrolled, the tools to deal with the impacts of decontrol have been largely abandoned by the Administration. The potential impacts are outlined below.

Table 4

Energy Policy: The Urban Impacts
(percent of respondents)

Impact of Cutbacks or Elimination of Energy Programs	Impact of Oil Decontrol
Very Negative - 30 percent	Very Negative - 27 percent
Moderately Negative - 37 percent	Moderately Negative - 52 percent

The Administration believes that federal programs will not be required to bring about energy conservation because the oil decontrol policy -- the marketplace -- will yield all the conservation necessary. As major consumers of energy and providers of energy intensive services such as police, fire, sanitation, emergency medical and transit, as well as heating and cooling of public buildings, local governments will be subject to the dictates of the marketplace without the tools to help accommodate themselves to it.

The detailed results illustrate the enormous impact that a combination of decontrol and little or no federal energy programs could have on the nation's cities.

Many cities cited the fact that weatherization programs will suffer. Most weatherized units are those of the poor and the elderly -- the most vulnerable sectors of society to high energy costs.

Many cities note that after years of inaction, programs just gearing up at the federal level were now beginning to have an impact at the local level. They lament a certain loss of momentum and public participation in energy conservation. One northeastern city cites a likely closing of energy consumer information center as an example. A cold, Upper Great Lakes city says that it might have to eliminate overall weatherization efforts and change it to an emergency program, doing just one room in a house and providing occupants with a space heater.

The impacts on city budgets promise to be severe and dramatic. Every rise in the price of gasoline has enormous repercussions to a city which purchases perhaps millions of gallons of gasoline in a year. For example, in one northeastern city, the cost of fueling motor vehicles owned by the city has increased so much that the city is forced to pare new car purchases by two-thirds. That city reports its electric bills up by some 20-25 percent. A major Texas City notes that every one cent increase in the cost of gasoline costs the city budget an additional $25,000.

The U.S. Conference of Mayors has proposed to the Administration that programs be consolidated into a local energy block grant which would save money while helping localities to deal with the impact of decontrol. It is clear from the survey that cities feel a need for energy conservation programs and believe their citizens will be critically hurt by the proposed cutbacks.

IX. EDUCATION

Most cities expressed strong concern at the immediate and long-term effects of the proposed cuts in federal aid to education, stressing that they will have to reduce or eliminate programs and services, lay off staff, and seek other funding sources.

Seventy-eight cities responded to the question, "Whether or not you administer your city schools, what is the probable effect of the proposed 25 percent cut in education programs?" Of these, 72 (92 percent) described the negative effects on their educational systems that will result from the proposed cuts.

Describing their approach to the proposed cuts, more than half of the cities responding, 42 (58 percent) emphasized that they would have to scale down or eliminate altogether programs and services currently provided. Programs affected include bilingual, vocational education, basic skills instruction clinical services, special counseling, and programs that reach the handicapped, the disadvantaged, children who are chemically dependent, exceptional children, and others.

For example, Minneapolis anticipates "greatly increased problems due to the lack of funds for programs for children with educational difficulties, such as the handicapped, those with language problems, the chemically dependent and others." Richmond said it may have to cut remedial programs, follow-through efforts for Head Start children, and services for low income and handicapped students. Saint Paul noted that in addition to its other programs, the refugee programs will be hurt. Baltimore anticipates the loss of many basic skills programs, clinical services, programs for exceptional children, reduced pre-K classes, fewer classes in intensive reading, and truncated counseling services.

Thirty cities (42 percent of those responding to the question) predicted that if the cuts are enacted they will have to cut education personnel, ranging from teachers and administrators to paraprofessionals in the school system. Warwick predicts that the impact of the cut will be "very severe," affecting teachers with tenure and ten years of experience. Kansas City foresees the need to cut 20 percent of both its teaching and administrative staffs.

Several cities indicated the level of federal aid they would lose. Atlanta, for example, predicts a loss of at least $7.5 million in federal education funds, Birmingham, $3.1 million; Boston, $4 million; and Buffalo, $7 million. Cleveland noted that a 20 percent reduction in school operating assistance will cost the Cleveland School Board $4 million in a system already facing a $40 million deficit. Philadelphia pointed out that they would lose $35 million from a school district "currently on the edge of bankruptcy."

Some cities would be hit even harder because of cuts in state funds or because of state legislation that prevents their raising revenues through additional taxation. Oakland, summing up the proposed reduction in federal education funds as "devastating," explained that because Proposition 13 has severely cut state funds, "If federal funds are cut, complete chaos will occur."

Several cities predict that the cumulative effect of the proposed 25 percent cuts in most education programs will be greater than the percentage loss might indicate. Dade County, labelling the proposed cutbacks as "very severe," emphasized that they will translate into a total loss of 34 percent. Kansas City noted that the proposed 25 percent cuts, coupled with the impact of diminishing local funds, will probably result in as much as a 50 percent loss in their operating funds for schools. Long Beach is "expecting a 29 percent cut in the current level of federal support." Rochester notes that the cuts will be "more than 25 percent because of inflation." Norfolk predicted that it will experience a "dramatic impact on an already somewhat restricted budget," and Youngstown pointed out that the cuts would "create another problem on top of a currently critical situation." Several cities specified that they would have to find alternate funding sources to continue their educational programs and services. These included Akron, Allentown, Anchorage, Cincinnati, Garland, Madison, Tucson, and Youngstown.

As they seek to cope with the likelihood of reduced federal funds, citeis are exploring other solutions. Madison and Nashville said that they may have to close some schools in order to meet the situation. Boston noted that their "city schools are now in very serious financial straits. A reduction of over $4 million annually will have a serious effect.

Dayton officials expressed their feelings this way:

> In the 1960s and 1970s, Dayton public schools were significantly below the national average in reading and math. In each of the last five years, we have shown improvement and hope to catch up with the national average. This growth will undoubtedly stop and possible regression will occur because the youngsters served benefit most from individualized attention ... It is terribly frustrating for school personnel to see the positive things that can happen to youngsters and then know that these opportunities may no longer be possible to them.

School Lunch Programs: Seventy-one of the cities surveyed responded to the question, "What is the probable effect of cuts in school lunch subsidies?" Of those responding, 60 (85 percent) indicated that they will experience negative effects of some kind because of the cuts.

Consequences common to many cities include the need to increase the cost of lunches, curtailment of the program to many youngsters, possible closing of some school lunch programs, lower quality meals, poorer nutrition for children, and the lay off of food service workers. Cities also expressed grave concern about the effect of poor nutrition upon the physical and emotional health of their children.

Twenty-four cities indicated that they will have to increase the cost of lunches. As Duluth noted, the present cost of lunches of 55¢ to 60¢ will "likely go to $1.05 to $1.15, a doubling in price." (see Table 3 in the Appendix for a list of those cities that anticipate a rise in lunch prices because of the cuts.)

Cities expressed concern about the number of children who will be affected by the cuts. Baltimore noted that 12,000 of its children will no longer be served by its school lunch program if the cuts go through. El Paso predicted a "major impact" because about 60 to 70 percent of its children are on subsidized lunches. In Tampa, Florida, about 20,000 children would lose eligibility. In Philadelphia, 12,000 children will no longer be eligible; Rochester notes that 3,000 students will no longer be eligible. San Francisco points out that the cuts will be "hardest on families now partially subsidized. Poverty students will probably be alone in the cafeteria and stigmatized." New Haven predicted that, "The city may have to eliminate the school lunch program, which is especially unfortunate since there has recently been a big effort on the part of the community and parents to improve the programs ... "

Some cities stressed that the consequences go far beyond increasing the costs of meals and the location and content of the programs. Memphis, for example, points out that the cuts in school lunches could have the "greatest effect of any categorical cuts," stressing that the whole program may be threatened and that "nutrition for children will suffer." Newark officials pointed out that since "many children have their best meal in school, the cuts could have a negative impact upon the learning capacity of disadvantaged children."

Oakland pointed out that, "If school subsidies are cut, school children will suffer from lack of nutrition, a possible higher rate of absenteeism, and hunger." Oklahoma City observed that, "The cuts would affect a lot of youths for whom that lunch is the only decent meal they get; this could be a health problem." Washington, D.C. predicted that the cuts could result in "poorer nutrition for children, and thus more serious learning, physical, and emotional health problems."

Another effect of the cuts in school lunches will likely be a lay off of food workers. Seven cities anticipated that as the program is scaled down, they will have to let food service personnel go. Grand Rapids forsees the need to reduce staff and reduce lunches to soup and sandwiches. Among others, Charleston will terminate 72 cooks, Long Beach about 54 cafeteria employees, Rochester about 50 part-time cafeteria workers, and Rockville about 172 persons.

Urban Universities: Cities were asked, "If you have any universities, what is the likely impact of proposed cuts in student loans and research grants?" Of the 54 cities that answered this question, 43 (80 percent) anticipated some negative impact. Only four (7 percent responding) said they would have little or no effect upon them, and seven cities (13 percent) could not predict what the effect would be.

Cities fear that decreased assistance for students and for university research will result in fewer students at the universities and colleges, curtailment of research, tuition increases, adverse effects on the city's economy because of fewer students in the area, and cutting of university staffs.

Some cities predicted that they would be severely hurt by the proposed cuts in student loans and research grants. The Mayor of Berkeley, California, for example, predicted that "combined losses of student aid and fewer students will seriously affect the economy of a city the size of Berkeley." Similarly, Boston, Nashville, Tacoma, Madison, and other sites of large universities felt that the impact would be substantial.

Of the cities that said they would be hurt by the proposed cuts, more than half noted that schools will feel the impact as students drop out or fail to enroll because they cannot afford the cost. Fresno, for example, estimated that 4700 (40 percent) of the 15,000 students at the University of Fresno would not be able to continue. Birmingham translated its losses into specific figures:

> The University of Alabama at Birmingham would lose 161 students who depend on guaranteed student loans. At Birmingham-Southern College, where 63 percent receive aid, most would be affected. At Samford, 50 percent of the law students would be hurt. University-affiliated research at the University of Alabama at Birmingham would be curtailed.

In Memphis, city officials warned that "many young adults will not get training and education they need for employment without these incentives."

In addition, several cities noted that the proposed cuts would adversely affect research in universities. Oakland pointed out that research grants will be curtailed; Nashville noted that biological research at Vanderbilt University will suffer, and other cities such as Ann Arbor, Birmingham, Fort Wayne, Louisville, Rochester, and Tulsa mentioned the adverse effect upon their universities' research efforts.

Other effects that cities noted include tuition increases, possible reduction of programs, cutting of staff, and negative effects upon the ability of minority students to obtain an education. Nashville pointed out that 40 percent of the nation's black doctors are trained at Meharry Medical College; many of these will be hurt by the loss of student aid and loans. Oakland officials expressed the fact that, "If the proposed cuts are instituted, all of the gains won by affirmative action will be reversed, and fewer minorities will be able to enroll in the university." Louisville warned that the "Loss of many of these other funds (capitation -- federally appropriated funds for medical and dental training; categorical programs and research funds) will affect what the university does, the kind of services it provides to the community and how many people they employ, rather than the direct services provided to the student."

X. INCOME SUPPORT PROGRAMS

The President's budget proposes major reductions in a wide range of income support and subsidy programs, including unemployment compensation, Food Stamps, child nutrition, the Special Supplemental Food Program (WIC), Aid to Families with Dependent Children (AFDC), Medicaid, refugee assistance, and subsidized housing programs. Seventy-four cities (82 percent of those responding to this question) indicated that there would be a combined negative impact on poor people resulting from the proposed cuts. That effect ranged from disastrous (82 percent) to moderate (also 28 percent of those responding). Only seven cities (8 percent) felt there would be little or no effect and one felt there would be a positive effect.

Though not directly asked, some cities indicated specific areas in which they were concerned about the cuts. Sixteen cities felt the Food Stamp cuts would be particularly serious; ten indicated the Medicaid cap would have a significant impact; eight felt the marginal, or working, poor would be especially hurt; seven felt the cuts would seriously affect the extreme poor.

Dayton, Las Vegas, and Elizabeth indicated concern about decreases in transportation services for the elderly. Fort Wayne, Syracuse, Minneapolis, and Oklahoma City projected higher police costs due to increases in crime resulting from the cuts. Boston, Dade County, Nashville, Kansas City and St. Louis were among those cities concerned about additional burdens that the cuts would place on public hospitals, since private hospitals are likely to be less willing to serve Medicaid or Medicare patients.

Several cities indicated concerns about the ripple effect the cuts would have on the local economy. New Haven pointed out that the Food Stamp cuts will hurt small businesses which are important to neighborhood economies. Syracuse felt there would be decreased revenues from property and sales taxes. Dade County indicated that the $30 million community-wide cut in federal funds which is anticipated would compound and affect other programs and services as well as the community as a whole. Wilmington expects a decrease in municipal revenue from the wage tax, which supports one-fourth to one-third of the city budget.

Cleveland projects an overall loss of $682 per year in benefits to a family; $862 if the family receives AFDC. They estimate that 8,000 working poor families would lose their food stamp benefits and 4,000 mothers and their infants would lose the prescription meals provided by the WIC program. One out of every three children receiving AFDC benefits will be affected; eligible households will each lose $41 through reductions in the low income energy assistance program. It is not expected that city, county, or state funds will be available to make up for the cuts.

San Francisco predicted that up to 40 percent of the AFDC caseload (5,000 cases) could be eliminated, a potential cost to the city of $12 million. The loss in Medicaid funds would be $11.5 million.

Dayton predicted that the elderly would be especially hard hit by the cuts in housing assistance, Food Stamps, legal services, and mass transit.

New York City could lose as much as $23 million for AFDC recipients. The loss resulting from the Medicaid cap would be considerably greater and is expected to increase over the next few years. It would be $102 million in FY82, $220-260 million in FY83, and $334-405 million in FY84.

Philadelphia predicts the cuts will threaten the financial viability of major services systems in the city and will seriously reduce the range of supports available to assist Philadelphia residents already on the margin between public dependency and self-support. As much as $7 million could be lost in FY82 for Medicaid supported services; $10.4 million could be lost in Title XX.

While most cities indicated that they really are not in a position to take on additional financial burdens to make up for the loss of federal funds, 54 cities indicated that they expect the cuts will in fact place additional burdens on their city budget. (See Table in Appendix for a list of these cities.)

XI. HEALTH AND HUMAN SERVICES BLOCK GRANTS

The Administration proposes to consolidate a number of health and social services programs into four block grants, basic health, preventive health, social services, and hardship assistance, and to reduce the funding for these programs by 25 percent below the current services level. Seventy-seven cities (87 percent of those responding to the question) felt that the proposal would have an adverse effect on health and social services and low income energy assistance provided to city residents. Only three cities felt there would be no effect; nine either didn't know or felt the question was not applicable because other jurisdictions handle the functions or programs for the area.

Concerns about the block grants fall into two major categories:

- The anticipated cuts in services and the impact they will have on people served by existing programs; and
- The anticipated problems resulting from state administration of the funds in terms of responsiveness to local needs and creation of new bureaucracies to administer the funds.

Baton Rouge indicates concern about the system the state would use to allocate the funds and the additional administrative costs that would be incurred. They feel that a 25 percent federal cut could translate into a 40 percent cut by the time the funds reach the local level.

Charleston, West Virginia, anticipates that several particular programs supported with Title XX funds would be dramatically affected by the 25 percent reduction: day care, mental health services, child abuse prevention, sheltered workshops, and domestic violence programs.

Boston expects a cut that will be greater than 25 percent under a state-administered block grant. The funding loss will hurt the city's poorest residents, especially the elderly. The homemaker, chore and transportation services currently operated with Title XX funds will be jeopardized. The proposed cut in low income energy assistance will be particularly devasting to the over 8,000 elderly households in the Boston area, with the price of fuel expected to increase to $2.00 per gallon next winter.

Cincinnati is concerned about how well the city will fare in getting funds through the state when it comes into competition with other areas in Ohio. It is felt that health care will suffer especially and that the elderly will be particularly hurt. More elderly will be hospitalized and hospital costs will rise across the board to pay for their care.

New Orleans predicts that over the next three years, it will stand to lose $14.4 million in social services, $441,000 in preventive health services, and $5.4 million in basic health care. These reductions will affect 22 social services agencies, 116 day care centers (serving some 4,500 children) and dozens of the neighborhood centers serving thousands of low income persons.

Two cities felt that the cut-backs, particularly in the health area, will affect poor residents so substantially that some will die.

Dayton pointed out the concerns that many cities have about providing all of the money to the states. The city feels that the state will administer programs less efficiently, will not be responsive to Dayton's needs, and that the city will have to reduce services drastically.

XII. EFFECTS ON THE PRIVATE SECTOR

Cities gave mixed responses to questions about the impact of the Reagan Administration's budget on the business and private non-profit sectors. Many cities feared that in the short term, small businesses in their communities would be adversely affected by the budget cuts, citing the decreased ability of the city to provide support services and reductions in consumer purchases resulting from cuts in income support programs. Austin, Texas, pointed out that reductions in federal grants will have a negative multiplier effect on business.

Many cities also mentioned that the cuts in EDA, Urban Development Action Grants and other business-oriented programs would prevent them from attracting new business to the community. Seattle, specifically, mentioned tourism as one sector which is likely to suffer.

In the long run, some cities felt that the Administration's proposed tax cuts and defense increases would eventually benefit their local business communities, while others were more pessimistic about the long-term effectiveness of the Administration's program.

A much higher percentage of cities, 73 percent, thought the Reagan budget proposals would have an adverse effect on the private-non-profit sector. Seattle stated that the effect of the CETA cut could be devastating, resulting in a loss of 5,000 to 10,000 jobs. Santa Barbara feared that many non-profits would be "completely wiped out."

Many communities had not really analyzed the effects of the cuts on their local businesses and the non-profit sector in quantitative terms. However, in a majority of cases, there was fear that the short-term effects of the cuts would be extremely negative.

APPENDICES

100 CITIES PARTICIPATING IN SURVEY

1. Akron, Ohio
2. Allentown, Pennsylvania
3. Anchorage, Alaska
4. Ann Arbor, Michigan
5. Atlanta, Georgia
6. Austin, Texas
7. Baltimore, Maryland
8. Baton Rouge, Louisiana
9. Berkeley, California
10. Billings, Montana
11. Birmingham, Alabama
12. Boise, Idaho
13. Boston, Massachusetts
14. Buffalo, New York
15. Burlington, Vermont
16. Cedar Rapids, Iowa
17. Charleston, South Carolina
18. Charleston, West Virginia
19. Cheyenne, Wyoming
20. Chicago, Illinois
21. Cincinnati, Ohio
22. Cleveland, Ohio
23. Columbus, Ohio
24. Corpus Christi, Texas
25. Dade County, Florida
26. Dallas, Texas
27. Dayton, Ohio
28. Denver, Colorado
29. Des Moines, Iowa
30. Detroit Michigan
31. Dubuque, Iowa
32. Duluth, Minnesota
33. Elizabeth, New Jersey
34. El Paso, Texas
35. Erie, Pennsylvania
36. Fargo, North Dakota
37. Flint, Michigan
38. Fort Wayne, Indiana
39. Fort Worth, Texas
40. Fresno, California
41. Garland, Texas
42. Gulfport, Mississippi
43. Hartford, Connecticut
44. Indianapolis, Indiana
45. Kansas City, Missouri
46. Las Vegas, Nevada
47. Lincoln, Nebraska
48. Little Rock, Arkansas
49. Long Beach, California
50. Los Angeles, California
51. Louisville, Kentucky
52. Madison, Wisconsin
53. Manchester, New Hampshire
54. Memphis, Tennessee
55. Miami, Florida
56. Minneapolis, Minnesota
57. Nashville, Tennessee
58. New Bedford, Massachussets
59. New Haven, Connecticut
60. New Orleans, Louisiana
61. New York City, New York
62. Newark, New Jersey
63. Norfolk, Virginia
64. Oakland, California
65. Oklahoma City, Oklahoma
66. Omaha, Nebraska
67. Philadelphia, Pennsylvania
68. Pittsburg, Pennsylvania
69. Portland, Maine
70. Portland, Oregon
71. Providence, Rhode Island
72. Richmond, Virginia
73. Riverside, California
74. Rochester, New York
75. Rockford, Illinois
76. Rockville, Maryland
77. St. Louis, Missouri
78. St. Paul, Minnesota
79. Salt Lake City. Utah
80. San Antonio, Texas
81. San Diego, California
82. San Fransisco, California
83. San Jose, California
84. San Juan, Puerto Rico
85. Santa Barbara, California
86. Seattle, Washington
87. Springfield, Massachusetts
88. Syracuse, New York
89. Tacoma, Washington
90. Tampa, Florida
91. Toledo, Ohio
92. Tucson, Arizona
93. Tulsa, Oklahoma
94. Warwick, Rhode Island
95. Washington, D.C.
96. Wilmington, Delaware
97. Winston-Salem, North Carolina
98. Yonkers, New York
99. York, Pennsylvania
100. Youngstown, Ohio

APPENDIX TABLE 1

FISCAL ADJUSTMENTS TO BE MADE BY CITIES IN FY82

CITIES WHICH ANTICIPATE CUTTING SERVICES

Akron
Allentown
Anchorage
Ann Arbor
Berkeley
Billings
Birmingham
Boise
Boston
Buffalo
Burlington
Cedar Rapids
Cleveland
Denver
Dubuque
Duluth
Elizabeth
Fargo
Flint
Fort Wayne
Fresno
Indianapolis
Las Vegas
Lincoln
Louisville
Madison
Manchester
Miami
Minneapolis
Nashville
New Bedford
New Orleans
New York City
Newark
Oakland
Omaha
Philadelphia
Portland, Maine
Providence, RI
Riverside
Rochester
Rockford
St. Louis
Salt Lake City
San Diego
San Fransisco
San Jose
San Juan
Seattle
Springfield
Tacoma
Toledo
Warwick
Winston-Salem
Yonkers
Youngstown

CITIES WHICH ANTICIPATE LAYING OFF WORKERS

Akron
Allentown
Ann Arbor
Baltimore
Billings
Birmingham
Boise
Boston
Buffalo
Des Moines
Dubuque
Duluth
Elizabeth
Flint
Fort Wayne
Fresno
Hartford
Las Vegas
Lincoln
Louisville

CITIES WHICH ANTICIPATE LAYING OFF WORKERS
(continued)

Madison
Miami
Nashville
New Haven
New Orleans
New York City
Oakland
Omaha
Portland, Maine
Portland, Oregon
Providence, RI
Riverside
Rochester
Rockford
St. Louis
Salt Lake City
San Diego
San Fransisco
San Juan
Seattle
Springfield
Syracuse
Tacoma
Toledo
Wilmington
Yonkers
York
Youngstown

CITIES WHICH ANTICIPATE RAISING TAXES

Akron
Anchorage
Billings
Buffalo
Burlington
Charleston, WVA
Corpus Christi
Dallas
Dubuque
Fargo
Las Vegas
Madison
Manchester
Minneapolis
New Orleans
Newark
Philadelphia
Portland, Maine
Portland, Oregon
Providence, RI
Rockford
St. Louis
Salt Lake City
San Juan
Syracuse
Tacoma
Toledo
Wilmington
Yonkers
York
Youngstown

APPENDIX TABLE 2

NUMBER OF WORKERS AFFECTED BY CETA CUTS

NAME OF CITY	NO. OF AFFECTED WORKERS	NAME OF CITY	NO. OF AFFECTED WORKERS
Akron	350	Miami	954
Allentown	136 (already	Minneapolis	1651
	laid off)	Nashville	300
Anchorage	230	New Bedford	1250
Ann Arbor	30	New Haven	272
Atlanta	1815	New Orleans	950
Baltimore	3000	New York City	11500
Baton Rouge	232	Newark	1500
Berkeley	127	Norfolk	131
Birmingham	306	Oakland	1100
Boise	10	Oklahoma	211
Boston	1300	Omaha	1000
Buffalo	1400	Philadelphia	3959
Cedar Rapids	28	Pittsburg	500
Charleston, SC	61	Portland, Maine	150
Charleston, WVA	70	Providence	500
Cheyenne	10	Richmond	170
Cincinnati	1030	Rochester	132
Cleveland	355	Rockford	35
Columbus	642	Rockville	22
Corpus Christi	200	St. Louis	610
Dade County	6500	St. Paul	250
Dallas	150	Salt Lake City	65
Dayton	312	San Antonio	315
Denver	254	San Diego	1550
Des Moines	360	San Fransisco	1400
Elizabeth	169	San Juan	1500
El Paso	629	Santa Barbara	103
Erie	300	Seattle	495
Fort Wayne	700	Springfield	264
Fort Worth	260	Syracuse	250
Fresno	208	Tacoma	298
Garland	16	Tampa	325
Gulfport	226	Toledo	592
Hartford	141	Tucson	300
Indianapolis	1200	Tulsa	300
Kansas City	175	Warwick	113
Las Vegas	120	Washington, D.C.	1086
Lincoln	306	Wilmington	450
Long Beach	450	Winston-Salem	118
Los Angeles	4500	Yonkers	350
Louisville	368	York	19
Madison	200	Youngstown	200
Memphis	400		

NOTE: Three cities requested confidentiality.

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APPENDIX TABLE 3

CITIES WHICH ANTICIPATE AN INCREASE IN THE COST OF SCHOOL LUNCHES

Allentown
Ann Arbor
Atlamta
Buffalo
Charleston, WVA
Cleveland
Dayton
Duluth
Fargo
Fort Wayne
Fresno
Las Vegas
Long Beach
Memphis
New York City
Philadelphia
Rockford
San Fransisco
Seattle
Tacoma
Warwick
Winston-Salem
York

TOTAL: 24.

APPENDIX TABLE 4

CITIES ANTICIPATING ADDITIONAL BURDENS ON THE CITY BUDGET AS A RESULT OF CUTS IN INCOME TRANSFER PROGRAMS

Akron	New York City
Allentown	Newark
Atlanta	Norfolk
Baltimore	Oakland
Berkeley	Oklahoma City
Boston	Philadelphia
Burlington	Portland, Maine
Cincinnati	Portland, Oregon
Cleveland	Rochester
Corpus Christi	Rockford
Dade County	Rockville
Dayton	St. Louis
Denver	St. Paul
Elizabeth	Salt Lake City
Erie	San Diego
Fresno	San Fransisco
Garland	San Jose
Hartford	San Juan
Las Vegas	Syracuse
Los Angeles	Tacoma
Manchester	Toledo
Miami	Tucson
Minneapolis	Tulsa
Nashville	Warwick
New Bedford	Wilmington
New Haven	York
New Orleans	Youngstown

QUESTIONNAIRE

The U.S. Conference of Mayors is conducting a survey of 100 cities which we intend to use in our lobbying efforts here in Washington, D.C. We intend to make public the information you and other cities provide, so if there is any need for confidentiality at any point in the survey, please let me know.

I want to ask you several questions on the impact of proposed budget cuts on your city.

(1) Are you in the process of laying off CETA workers? If all CETA Title IID and VI slots are eliminated in FY82, how many workers will be affected? What is your best judgment as to how many of these people will go on unemployment compensation, welfare or other government aid? Given the proposed budget cuts, will you be able to maintain services to youth without cutting services to other CETA participants?

(2) How many units of Section 8 housing were allocated to your community last year? If subsidized housing programs are cut by one-third, what impact will this have on your citizens and community?

(3) Did your community have an allocation of Section 312 funds in FY81? How many units of rehabilitation did you anticipate funding through this program in FY81? If the funds are eliminated, will you go ahead with the rehabilitation work anyway, using some other funds? If so, what other funds?

(4) If your Community Development Block Grant funds are cut by 10 percent through inflation and the UDAG program is substantially reduced, what effect will this have on your local activities? What activities will be cut back or eliminated as a result of this reduction in your grant? Please be specific if you can.

(5) Has your community participated in EDA programs for economic development (programs other than LPW I or II)? If EDA funding is eliminated in FY81 and the agency eliminated in FY82, what impact would this have on your community? Do you have funding applications now at EDA which will not go forward if the budget plans are approved? What are they and what impact will the budget cut have locally because of this?

(6) If public transportation operating assistance is eliminated after FY84, what would be the result in higher fares? Ridership? The continued operation of your transit system?

(7) If no funds are appropriated for EPA wastewater treatment program in FY82, what will be the impact on your city's program in this area?

(8) Whether or not you administer your city schools, what is the probable affect of the proposed 25 percent cut in education programs? Cuts in school lunch subsidies? If you have any universities, what is the likely impact of proposed cuts in student loans and research grants?

(9) The Administration has proposed major reductions in a wide range of income support and subsidy programs, including unemployment compensation, Food Stamps, child nutrition, the Special Supplemental Food Program (WIC), welfare (AFDC), refugee assistance, Medicaid and subsidized housing programs. What is your best estimate as to how all of these cuts combined will affect poor people in your community? Will additional burdens be placed on your city budget as a result?

(10) Will the proposed consolidation of health and social services program into block grants, with an accompanying 25 percent cut, affect health and social services and low-income energey assistance in your area? How?

(11) What is the likely fiscal situation of your city in FY82? Will you lay off workers? Raise taxes? Cut services? What is the overall effect of all the proposed cuts on your FY82 budget? Are you facing a deficit in the current fiscal year?

(12) What is your best estimate of the impact of the Reagan budget on the business sector in your city? The private non-profit sector?

(13) The Reagan Administration has proposed cutbacks or eliminations in all energy programs. What will be the impact on your city? What will be the additional impact on your city of oil decontrol?

HOW MANY GRANTS CAN A BLOCK GRANT GRANT IF A BLOCK GRANT PLAN GETS BLOCKED ?

Answers to 15 of the most commonly asked questions about BLOCK GRANTS.
PREPARED BY U.S. REP. ROBERT S. WALKER

Congress of the United States
House of Representatives
Washington, D.C. 20515

Dear Friend:

Probably the most controversial component of President Reagan's economic recovery program has been his proposal to consolidate/decentralize nearly 100 categorical programs. The controversy over the real purpose of the proposal has been equaled only by the amount of confusion surrounding the issue.

There are numerous real advantages to the block grant idea. In one sense, it is the most revolutionary aspect of the economic package; in another sense, its roots lie firmly in basic constitutional principles. There is no doubt that implementation of the block grants will only help the truly needy, while eliminating nearly all of the counter-productive, inflexible Federal overhead that has been the major roadblock to assisting truly needy people.

Unfortunately, the overwhelming advantages of the concept have been clouded by the calculated strategy of special interest groups and other opponents of the idea. Rather than deal with the merits of the concept, they have subjected the American public to a steady stream of misinformation about the intent of the proposals.

In an effort to counter that strategy and get the debate back on track, I have prepared for your use the following paper on the block grant concept. Although largely theoretical, the principles can be applied to each of the specific proposals currently before the Congress. There are 15 of the questions asked most frequently about the block grant idea, with an answer for each. The question and answer format, I hope, will make it useful.

Cordially,

Robert S. Walker, M.C.

1. Q: **What is a block grant?**

A: The Advisory Commission on Intergovernmental Relations has defined a block grant as:

". . . a program by which funds are provided chiefly to a general purpose governmental unit in accordance with a statutory formula for use in a broad functional area. The key elements are **structural, functional, managerial, NOT FISCAL.**" (Emphasis added.)

It is this last element that is the source of much confusion and apprehension.

2. Q: **In general, what are the distinguishing characteristics of a block grant relative to categorical grant programs?**

A: Essentially, there are five key features of a block grant. The ACIR has identified the following:

1. Federal aid is authorized for a broad range of activities within a defined functional area (e.g., preventive health services as opposed to individual rat control or other overly specific grant programs).

The goal is not merely consolidation, but decentralization. Simply consolidating several federal categorical programs may result in some savings and efficiencies, but it may also lead to the construction of new bureaucratic empires replete with the promulgation of more regulations and programs.

The real advantages of a block grant are achieved only through decentralization.

2. Recipients have substantial, yet closely monitored, discretion in identifying problems, prioritizing resources, designing programs, and allocating available resources to meet the problem.

Rather than have to wait for some bureaucrat in Washington to tell a local official how to solve his problem, that local official can solve the problem with the resources he has.

3. Administrative, fiscal reporting, planning and other federally imposed requirements are kept to the minimum necessary while insuring that established national goals are met.

4. Federal aid is distributed on the basis of a statutory formula, set by Congress, which results in a more equitable distribution of funds based on historical usage and need, at the expense of a substantial dissolution of Federal administrative and bureaucratic overhead.

In effect, block grants will eliminate the power structures constructed within the bureaucracy over the past two decades; fiefdoms which have been constructed at the expense of the American taxpayer and, unfortunately, at the expense of legitimate recipients of assistance.

5. Eligibility provisions are statutorily specified and favor as decisionmakers general purpose governmental units (e.g., cities as opposed to community action agencies) and elected officials and administrative specialists (e.g., mayors and town administrators rather than unelected, unaccountable federal bureaucrats) as recipients.

3. Q: **Where does the block grant fit into the Reagan economic recovery program?**

A: It is the linchpin of the program. President Reagan acknowledged this on March 20, 1981 when he laid out the fundamental philosophy of his Administration:

". . . we are not cutting the budget simply for the sake of sounder financial management. This is only a first step toward returning power to states and communities, only a first step toward reordering the relationship between citizen and government . . ."

Without successful implementation of the block grant concept, the Reagan program cannot succeed. Without the degree of flexibility provided by the block grants, state and local officials will be straitjacketed into cutting services for specific programs. With that flexibility, they will at least be able to ameliorate, to some degree, the effect of the overall budget reductions by deciding which essential programs should continue to be fully funded (or close to it) and which programs can be reduced.

4. Q: **Has the idea ever been proposed before?**

A: Yes, several times. The Hoover Commission, in 1949, recommended that categorical grants be "classified and systematized" and that a "system of grants be established based upon broad categories—such as highways, education, public assistance, and public health—as contrasted with the present system of extreme fragmentation." That was in 1949, but each major attempt at consolidation/decentralization was met with congressional skepticism and defeated.

President Reagan resurrected the idea during the 1976 Presidential campaign when he proposed turning $90 billion worth of domestic programs back to state and local governments.

The idea continued to germinate and, as more and more people became familiar with the objectives and purpose, block grants became a fundamental plank of the 1980 GOP Platform.

"For too many years," the platform said, "the political debate in America has been set by Democrats. They believe that every time new problems arise beyond the powers of men and women as individuals to solve, it becomes the duty of government to solve them, as if there were never any alternative . . . Our society consists of more than that; so should the political debate . . . we will restore and strengthen their ability to solve problems in the places where people spend their daily lives and can turn to each other for support and help . . ."

That really is the fundamental issue in the current debate—returning control of power to state and local governments in defined areas. The key question is whether our efforts to help people will continue to become a regulatory nightmare or whether they will develop a neighbor helping neighbor character.

5. Q: **Why the sudden sense of urgency?**

A: There are a lot of answers to that question. There is a fiscal crisis threatening not only the federal budget, but state/local governments as well. Many state/local governments, with their debt ratio approaching alarming proportions, are teetering on the brink of bankruptcy. As federal spending has increased, there has been a punishing multiplier effect on state/local budgets.

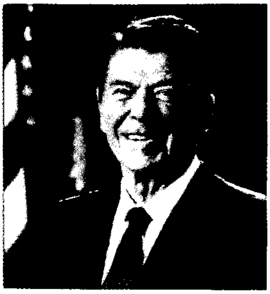
Several features of federal programs, particularly grant-in-aid programs, serve to extend the fiscal impact of Federal assistance on state budgets far beyond the impact of Federal dollars alone. For example, the majority of grant programs require a non-Federal matching share. Also, a number of Federal grant programs are seed money programs where states often become induced to continue programs with short-term Federal money. Finally, Federal grants come to states laden with a formidable array of conditions and mandates with far-reaching fiscal and programmatic consequences for state/local governments. One study indicated that there are now over 1250 Federal mandates in effect; whereas, in 1960, there were virtually none.

Further evidence of the degree to which the federal government has overwhelmed state/local governments is provided by the following:

—In 1949, there was a total of $1.8 billion spent for grant-in-aid programs (defined as budget authority and outlays provided by the federal government in support of a state or local program of government operations or provision of services to the public), or 0.7% of GNP.

—By 1960, total spending for grant-in-aid programs was $7.0 billion, an increase of almost 300%, and now accounted for 1.4% of GNP. Spending for these programs increased by another 250% during the 1960s, and totalled $24 billion in 1970—2.5% of GNP.

—By 1981, spending for grant-in-aid programs had quadrupled again to $94 billion, accounting for 3.3% of GNP. Thus, overall spending for grant-in-aid programs has increased by almost 5,000% since 1949—when the Hoover Commission first reported that the intergovernmental system was extremely fragmented.



On June 19, 1981 President Reagan said, ". . . long overdue pruning of Federal overhead and red tape will permit social needs to be met at less cost to the taxpayer. . ."

These spending increases have imposed an almost intolerable burden on state and local governments. Further adding to the confusion is the fact that, in 1960, 80% of the 132 federal grant programs dealt with transportation and income security programs. By 1980, there were 500 categorical grants in effect which blanketed virtually every facet of state/local government, leading one observer to comment, "when Washington thinks, Federal programs spring up like dandelions."

This is the fiscal environment in which the block grants were proposed. It is clear that, as spending has run wild at the federal level, state/local governments have been forced to match or even exceed this spending.

We have simply run out of resources to maintain this chaos at all levels of government. From a fiscal standpoint, either we begin to lessen the growing load on state/local governments, or they will soon face the consequences of draconian slashes in services or bankruptcy. No one benefits from that.

6. Q: **How would the President's block grants begin to redress the overwhelming imbalance threatening our system of federalism?**

A: In reality, the initial budgetary savings that will be derived from the block grants will be relatively minor. Total savings in FY82 are expected to be approximately $4 billion.

The real savings and significance of the block grants will become apparent in the long term. More than 10,000 specific, individual grants to state/local governments will be cut to less than 500, with corresponding efficiencies resulting from the elimination of separate plans, applications, reports and other Federal requirements.

The advantages of the block grants will then become clear:

—increased coordination
—decentralization
—economy/efficiency
—effective targeting
—innovation

7. Q: **Aren't block grants actually cleverly designed devices that will result in entire programs being wiped out and millions of low-income people being thrown into the streets?**

A: No. This is what many special interest groups would like you to believe. It is not true. Unfortunately, the block grant issue has gotten confused with the budget reduction package.

This confusion has not been

entirely unintentional, either. The single issue organizations, often looking out for their own interests instead of the interests of those they purportedly serve, have whipped the general public into a state of hysteria by feeding them a steady stream of misinformation about the effect and purpose of the block grant.

For example, one coalition recently released a statement saying that these proposals would "repeal landmark legislation, eliminate essential programs and undermine principles of fiscal accountability and lay the groundwork for confusion, neglect, and new bureaucracy at the state level . . . many believe these proposals are the first steps in a strategy of abandonment of federal involvement in meeting human needs."

These charges are totally without basis in fact, irresponsible, and serve only to mislead the general public, while scaring those who will benefit most from the block grants—the legitimately needy.

The block grants and the budget cuts are two distinct entities. While they can, and will, work together to soften the impact of the budget cuts, the purposes of each are entirely different. The primary purpose of the budget reduction package is to curb extravagant spending and improve the condition of the economy.

The intent of the block grants is to redirect many federal programs and improve the delivery of federal funds. So, in the Administration's effort to give states and localities more decisionmaking authority, decentralization of federal programs would have been proposed in the absence of any effort to reduce overall expenditures.

Actually, the block grants are cleverly designed devices aimed at truncating this special interest coalition, and other groups like it, and reducing the size of the federal government. *The only thing they will eliminate is the calcified federal layer of administration.*

In that regard, the block grants would be better associated with the Reagan Administration's deregulatory efforts.

8. A: **What type of safeguards are there to ensure that the states will be responsive to constituencies and localities?**

A: The purposes of the block grants are the purposes of the programs being consolidated. *Funds must be used for these purposes.* Implementation of the block grants will be the responsibility of *non-Federal elected* officials, thereby providing various constituencies with more direct access to decisionmaking than they currently have.

With the changes brought about by voting rights and other civil rights laws, elected officials, Federal/state and local, have become much more responsive to citizens whose needs were not being met before enactment of these laws. In fact, the franchise power will be enhanced because local voting patterns will have positive policy effects. The charge that the block grants would ". . . undermine entitlements, civil rights and other safeguards . . ." is pure political claptrap with no basis in fact.

9. Q: **Another criticism leveled at the block grant concept is that one of the reasons why the federal government usurped so much state authority was that state governments were not sophisticated enough to identify problems and create solutions to them. Why are we asking states to assume responsibility for services they were unable to deliver 15 years ago?**

A: Most opponents of the block grant concept prefer to ignore the fact that state and local governments, as they have been forced to review the increasingly complex array of Federal grant programs, have become institutionally modernized, efficient, and sophisticated entities.

For example, restrictions on the length of legislative sessions have either been substantially reduced or eliminated entirely in most states. In 1962, only 19 state legislatures met annually; 31 had biannual sessions. By 1978, 43 legislatures held regular sessions in both years of the biennium, and 28 were able to call themselves into special sessions to deal with emergency situations (many times caused by the failure of the federal government to address a problem related to their states).

Second, compensation for legislative service has increased. From 1961 to 1977, the average rate of increase for the salaries of state legislators has been twice that for all other state/local employees in those states. This can be positively related to strengthening the institutions of the legislature and executive branch because higher levels of compensation can discourage high rates of turnover.

Third, permanent, professional staff with a variety of skills have been added to enhance the analytical capabilities of state legislatures. This is reflected in the movement toward more permanent legislative service agencies performing research and/or policy analysis (from 36 agencies in 1962 to 197 in 1979), fiscal review and analysis (from 36 agencies in 1962 to 88 in 1979), and post audits (from 28 agencies in 1962 to 62 in 1979).

Fourth, procedures and practices have been developed to expedite the legislative process in the interim period between sessions. In about 30 states, regular House and Senate standing committees (or their equivalent) perform some interim work between sessions and frequently operate jointly or are augmented by special interim panels and ad hoc study groups.

Finally, most states have developed an increased capability to review and analyze the activities of the government and oversee the performance of the executive branch in program administration. In 40 states, legislatures carry out their oversight of the executive branch through post audits and program evaluations performed by state legislative auditors and evaluators.

Legislatures have recently provided themselves with several mechanisms with which to perform oversight activities. These include post-audit and program evaluation "tools," review of administrative rules and regulations, sunset laws, closer review of Federal grants, and an overall enhanced capability for budget review.

As Walter Heller, once a leading proponent of consolidation/decentralization, wrote:

"Transcending all other considerations as we seek new forms of Federal fiscal relief for the states is the need not simply to increase their resources, but to restore their vitality; not simply to make them better 'service-stations' of federalism, but to release their creative and innovative energies; not simply to pay 'lip-service' to states' rights, but to give substance to state governments . . ."

The charge that the block grants are ". . . undirected, unmonitored, and unexamined . . ." cannot be substantiated.

10. Q: **Won't giving administrative authority for these programs result in the state and local governments hiring more bureaucrats at that level? Aren't we just shifting bureaucrats around?**

A: No. It is important to remember that the programs being consolidated/decentralized are already, for all intents and purposes, being administered at the state/local level in some form or another.

Officials at this level of government are responsible for implementing the programs. Officials at the federal level write the regulations the local officials have to comply with, then check and monitor the application procedures to determine who is eligible for program assistance, and then audit the performance of local officials in implementing the program in accordance with standards they played no role in setting. It's a lot like a marionette show, with the federal government pulling the strings to make the puppet dance.

Under the block grants, all local/state officials would have to do is assume an extra degree of responsibility. They wouldn't have to hire anyone else. There are already plenty of bureaucrats at the state/local level to assume the responsibility.

U.S. Representative Robert S. Walker stacked up more than 300 GAO reports issued since July, 1979, each making recommendations for reducing waste and fraud in the government. Rep. Walker says, "much of that waste can be eliminated by implementation of the Block Grant proposals which would increase the efficiency of the federal government dramatically, save the American taxpayer billions of dollars, and improve the delivery of assistance to the truly needy."

In 1978, there were a total of 2.8 million federal employees, representing an increase of 19% since 1960 and 36% since 1950. There were almost *six times* as many bureaucrats at the state/local level: 12.7 million (3.5 million state and 9.2 million local).

That represents an increase of 203% in total employees since 1950 (254%: state; 188%: local) and a 99% increase since 1960 (131%: state; 89%: local).

Block grants will all but eliminate the federal overhead involved in administering the categoricals. For example, implementing the education block grants would make a significant number of Education Department employees expendable. With funding for these programs in block grants and with the day to day decisionmaking at the local and state level, much of the justification for retaining a separate Department of Education would be eliminated.

One of the real advantages to the block grant concept is that it provides a way of reducing Federal bureaucracy without increasing the need for more state and local administrative personnel and costs.

11. Q: **Then state and local taxes will have to be raised to finance services and programs, won't they?**

A: No. Essential services will continue to be delivered and financed, in the short term, by the federal government. Overall funding for many of these programs is being reduced anyway; the question becomes how best to deliver the lower level of assistance so that the legitimately needy are not adversely affected.

As state/local officials adapt to block grant funding and introduce efficiencies and innovations of their own, they can begin to combine funding for several programs, coordinate others, and generally begin to weed out less essential services. The current level of taxation can then be reduced.

Further, as recipients of assistance are moved back into the private sector from the public as a result of stimulative economic policies (e.g., Kemp-Roth), the tax base is broadened and tax rates can be dropped still further.

The ultimate objective of the block grant is to leave the taxing authority at the state and local level, rather than have it come to the federal government first, and then be distributed by formula among the states. State and local governments would then have their own pool of resources from which to finance services.

It must be remembered that one reason for the federal government's original assumption of state and local services was because it was believed that the state and local governments did not possess the ability to raise their taxes to the necessary level to finance the growth in programs and spending. Somehow, it was decided that the federal government possessed this ability and federal tax rates began to climb.

We have learned two lessons from that experience. One, the federal government did not have the ability to indiscriminately raise taxes any more than the state and local governments did and, two, maybe there's a better way to finance public services without raising taxes, namely through programs stressing delivery efficiencies.

12. Q: **How will funds be distributed under the block grants?**

A: Funds will be distributed according to an objective, statutory formula that will take funding decisions out of the hands of subjective bureaucrats and introduce an element of fairness and equity not currently present in the categorical system.

Under the current categorical system, proficiency at grantsmanship is emphasized. The question becomes: how do we manage to convince the federal government that our program is worthy of being funded?

Categorical funding stresses the *application* for funds; secondary importance is attached to how the funds will be used once they are received. Block grant funding will remove the uncertainty and the element of competition for federal funds. *This will allow state/local officials to concentrate on how best to deliver assistance to needy individuals.*

Block grant funding formula distribution will ensure stability of funding, thus removing another major headache for administrators.

13. Q: **Will block grants allow local/state administrators to plan ahead and devise programs that will help the truly needy rather than force them to adjust every year to funding level changes, or changes in program rules and regulations?**

A: Yes. Currently, the frequency of funding and the level of funding for many of these programs is often held hostage by federal officials, sometimes until the state or locality complies with some obscure federal mandate. Block grants would remove that subjective discretion from federal officials.

Because of the proliferation of federal programs, rules and regulations, state/local governments often must devote considerable time and resources just to keep informed of, identify, and avail themselves of various forms of Federal assistance. Despite these herculean efforts, many state/local officials do not learn of Federal assistance until it is too late, or don't learn of it at all.

For example, one state education department established a separate office in Washington in an attempt to keep informed of Federal education programs. The office reviews the Federal Register, the Congressional Record, Education Daily and other professional journals, and numerous other possible sources of information. They also maintain a close working relationship with the staffs of congressional delegations and respective education committees in both Houses of Congress.

The head of the office said all of this was necessary because he could not rely on receiving notification of pertinent information from the Education Department.

In some cases, if state and local officials learn of the availability of funds at all, it is due more to sheer luck or coincidence than anything else.

For example, a project director in another small county was actively seeking funds for a social service planning project. He became aware of a possible funding source when discussing an unrelated matter with an HEW regional director. The director said that, because of limited funds and the short time frame for soliciting proposals, *HEW made only a limited, arbitrary announcement of the program. The regional office would not have notified the county of the program had not the county project director talked to the regional director by chance.*

Some state/local officials make no effort at all. The State of Wyoming recently turned down a juvenile justice grant because it would have cost $500,000 in paperwork just to get the $200,000 grant.

Who suffers because of this? Not the federal bureaucrats. Legitimate recipients of assistance lose. Block grants would remedy that by channeling funds more effectively to those in need.

These are just some of the problems involved in *applying* for categorical funds. Once you get the money, administering the program is another story.

It is clear that state/local officials regard the uncertainty of Federal funding to be one of the most significant and intransigent problems in dealing with the current Federal assistance delivery system. Because of funding uncertainty in the grant-in-aid system, state and local governments are frequently confronted with short lead times to apply for available assistance as well as difficulties in planning for the continuation of existing programs.

This uncertainty reduces the value of forward planning on the part of state/local governments and makes them much too reactive to the availability of Federal funding. This further discourages any attempt at integrating Federal programs and their functions.

Ultimately, this situation results in a reduction of services to recipients because program implementation is based on ad hoc decisionmaking rather than need generated criteria.

A perfect example is the annual ritual surrounding funding for the Food Stamp program. Each year, the USDA underestimates the total funding level necessary to allow the program to continue operations through the end of the fiscal year. Each year, in a crisis atmosphere, Congress is forced to appropriate additional funds. Each year, funding is held hostage until Congress tinkers with the program, usually with the eligibility requirements. This places the state administrators in a highly reactive position; wondering, first, if they will have to shut their program down, and, second, what kinds of technical adaptations they will have to make to their program.

Any responsible state/local administrator will admit that, even more important than the level of funding for their programs, is stability of funding. This is because, first of all, from their point of view, federal programs will *never* be fully funded and, second, much like the theory behind multiyear tax cuts, they need to plan in advance and be able to rely on a steady source of funds to truly maximize delivery of assistance.

Block grants would provide them with that stable, flexible, single source of funds around which they can construct programs that best meet the needs of their constituencies.

14. **Q: How will block grants allow coordination and integration of current Federal programs?**

A: Another major problem that the block grants would solve concerns the inability of state/local administrators to combine all funding sources in a coordinated, cohesive fashion. The sheer volume of programs, documented earlier, makes it virtually impossible to become knowledgeable of the content of each program enough to coordinate them and target the assistance. This is compounded to the nth degree by the fact that different Federal agencies or agency components administer similar programs.

Put yourself in the position of the intergovernmental coordinator for Shelby County, Iowa, Mr. Cliff Tuck:

"In 1973, we had an eye-opening energy crisis coupled with galloping inflation and the possibility of a recession . . . now we have 29 new energy assistance programs to deal with as well. Twenty of these programs are applicable to local government. Fourteen of these programs are so new they lack regulations and in many cases are not even listed in the 1979 edition of the Federal Domestic Assistance catalog. USDA has 3 programs. HUD-3, DOT-3, SBA-2, TVA-1, EPA-4, DOE-8, HEW-1, EDA-1. If that is economical and efficient anything . . . I must be a five-eyed, three pound visitor from outer space . . ."

Even if, by some miracle, you were able to coordinate all that, the multiplicity of these narrowly defined programs for one function present the grantee with a further dilemma: a particular program may be too restrictive to meet a need completely.

In a situation reminiscent of Gulliver and the Lilliputians, one official in Black Hawk County, Iowa, related a problem where five-year old needy children were excluded from federally funded nutrition programs because one program only provided for children up to age five and the school lunch program serves only children six or over.

Block grants would eliminate these interdepartmental conflicts and coordinating problems at the Federal level, and would encourage coordination among recipient agencies at the state/local level. This will further encourage development of innovative programs and efficient targeting of resources.

15. **Q: If block grants are so great, why has there been so much opposition to the Reagan proposals?**

A: Two answers, actually: confusion and misunderstanding. Both have fed on each other to create a climate of fear and hostility. Creating this climate has been an essential element in the strategy aimed at preserving the categoricals.

There is a substantial amount of confusion concerning just the term block grants. The wording is perceived to be much too harsh and threatening to have any merit to it. The whole issue of block grants vs. categorical grants, and intergovernmental relations in general, sounds too much like a dry, academic debate to spark any significant interest. Trying to explain the concept is difficult enough, but trying to explain to someone affected that their program is going to become part of a block grant competing with other priorities raises some eyebrows and many questions.

Unfortunately, a major contributor to this confusion has been the media. The extent to which some have been captured by the strategy of the left is provided by the following Carl Rowan column:

"The question arises: Does Mr. Reagan want the children of America to break out of their shackles and help build a secure America, or does he prefer that they languish in misery? Does the Administration want to make children contributing Americans or does it merely want to keep them as pawns?"

For reasons known only to Mr. Rowan, he chose the wrong

...nly by removing the ...surmountable barriers ...d by federal administrators ...gh the growth of more and ...re categorical programs will ...e children of America break out of their shackles. Only by breaking down the bureaucratic power structures will children and other legitimate recipients of assistance be able to receive the quality and level of assistance they require.

But there are others who understand full well the purpose of the block grants and their implications. They are the coalition of special interest groups that has spawned and nurtured the growth of categorical programs.

The strategy of these groups has been clear from the start: to confuse the public, use scare tactics when necessary, and employ erroneous and wildly exaggerated claims (some of which have been mentioned here) to construct a smokescreen of fear and apprehension that will make it impossible to discuss the block grant idea in a rational manner.

It is the existence of these groups that is at stake. In their view, "these proposals will certainly mean two things: less assistance to those in genuine need . . . and a brutal political struggle at the state level where the most vulnerable and those without clout are almost certain losers."

The only "brutal political struggle" that will result from implementation of the block grants will pit federal bureaucrat vs. federal bureaucrat. One observer compared the current struggle to a "social Armageddon" and, while that may be accurate, it is clear that the losers will *not* be legitimate recipients of assistance. Once the logjam created by the categorical programs and federal bureaucrats is broken, the truly needy are the ones that stand to gain the most. Block grants will dissolve some of these self-perpetuating coalitions that have served to keep the truly needy in the bondage of poverty.

That has been the purpose of this paper, to sort out fact from fiction, cut through their smokescreen and provide answers to most commonly asked questions about block grants.

Block grants are not a magic elixir; they will not solve all our problems. No one is making that claim. There may be problems that arise during implementation, but they can be worked out and alterations made by working *with* officials at the state and local level, instead of against them.

But whatever problems arise, it is clear that fewer people will be hurt and the problems will pale in comparison to continuing to fund these programs in a categorical manner. It is imperative that we provide local officials with the maximum degree of flexibility in administering the budget reductions to ensure that the truly needy are not hurt. Under the categorical system, it will be impossible to ameliorate the effect of budget reductions.

So this is anything but a dry, academic debate. At stake is the livelihood and future of millions of Americans. The real question that must be answered is how the interests of the truly needy will be protected as the budget reductions are administered. That question has been answered by block grant supporters, but opponents, despite all their chest-beating and hysteria, have yet to do so.