The new federalism: can the states be trusted?

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On the day he was inaugurated in 1971, the newly elected Governor of Georgia, Jimmy Carter, walked across the street from the State Capitol to the Atlanta City Hall to tell the then Mayor, Sam Massell, that the state government stood ready to assist the City of Atlanta in any way it could. Though it received scant attention outside the Atlanta area, this was an event of national significance. For Georgia was one of the very last states whose elected officials consistently played to the rural vote by refusing to help Atlanta significantly in coping with its urban problems. Governor Carter’s visit to city hall thus marked the collapse of the last bastion of true urban-rural conflict in American state politics, and the consequent evaporation of the last empirical justification for a myth that has been invoked again and again by those arguing for further centralization of power in Washington and for mechanisms that bypass the states to give federal aid directly to central cities.

The passing of state-city conflict in Georgia is only one dramatic example of a more general transformation of state and local governments in the United States that has been going on virtually unnoticed.

Even in Georgia this urban-rural conflict was not quite so clear-cut as it seemed, since the state’s other metropolitan centers were far less disadvantaged than its capital, which remained suspect in Southern eyes as a post-Civil War parvenu that played up to the Yankees as a means of getting rich.
since the end of World War II. Much the same thing has happened in Virginia, whose government for years was based on a kind of parsimonious efficiency but has now embarked on a major effort to become at least a mild version of the social service state; in Florida, where flamboyant reaction has been repudiated in favor of a solid, if less glamorous, liberalism; and in Arkansas, where a Democratic moderate has succeeded a Republican moderate as governor. Even Mississippi and Alabama are beginning to respond to the needs of their black minorities and to accommodate increasing black power at the polls and new black officeholders. These, of course, are the states usually pointed to by critics attempting to demonstrate the incapacity of governments outside Washington to govern, and for a long time much of the critics' case was justified. But now even these states have undergone the quiet revolution which has transformed state government, as it transformed local government in the decade of the 1950's, into a solid instrument for meeting the complex needs of American society today.

The critics' case

This revolution remains hidden from most Americans even as the debate over revenue sharing has brought the question of federal-state-local relations to the front pages and editorial columns of the nation's newspapers. In a single issue of The New York Times not long ago, Amitai Etzioni became the latest in a long succession of people who have attacked revenue sharing on the ground that state and local government is especially corrupt, and Arthur Schlesinger, Jr., questioned the entire idea of enhancing the power of local government by claiming, as many have before him, that, because the national government is no less the government of the people than local government, there is no reason to believe that anything is better done locally than nationally.

The Etzioni and Schlesinger myths are but two of many. In other quarters, there are those who still argue that strengthening the hand of the states and localities is a way of perpetuating racial discrimination. Others repeat the myth that the federal government grew in power originally because of state and local failures, and that there is therefore no reason to reward the states and localities today. Tied closely with that myth is another one that claims that, because the states and localities have not made sufficient effort to come to grips with their problems on their own, they do not deserve to be bailed out by Washington.
I submit that a careful reading of the record belies each and every one of these criticisms, revealing most of them to have been untruths from the first and the rest to be criticisms that, whatever their original value, have long since become obsolete. There is more than enough evidence to show that the states and localities, far from being weak sisters, have actually been carrying the brunt of domestic governmental progress in the United States ever since the end of World War II, and have done so at an accelerated pace since the advent of America's direct combat involvement in Vietnam. Moreover, they have been largely responsible for undertaking the truly revolutionary change in the role of government in the United States that has occurred over the past decade.

In making this claim, I do not intend to argue from single examples, as people usually do when they want to "prove" the failure of the states and localities. Generally, when the claim is made that the states or the cities are failing, the claimant then points to Mississippi or Newark or some other state or community that does provide a sufficiently horrible case in point. Such arguments are no more accurate than a claim that the states are the most progressive governments in the country—which could easily be substantiated if one looked exclusively at New York, California, Wisconsin, or Massachusetts, which have been over the last 80 years far more progressive in many ways than the federal government—or that the cities are far more compassionate than any other governments, a contention that would be sustained if one looked only at San Francisco, New Orleans, Berkeley, or New York, which have been far more tolerant of individual social differences and deviations than Washington or any state. In these pages, therefore, I propose to evaluate state and local government, not by citing a few extreme examples, but by looking at the general record which state and local governments as a whole have built in each of the areas their critics have pointed to.

The myth of urban-rural warfare

Criticism #1: The states are unmindful of local—particularly big-city—needs, while the cities distrust the states and refuse to cooperate with them. This argument had considerable merit during the two generations or so the country took to make the transition from rural to urban living. Not unreasonably, declining rural populations were reluctant to give up their dominance of state governments to the new urbanites, particularly since so many of the former genuinely believed in the moral superiority of rural life and so many of the latter
belonged to ethnic or racial groups with decidedly different mores. Indeed, much of what posed as urban-rural conflict was really inter-ethnic conflict set in a discreet juridical framework—one confirmation of which can be found in the voting support those city dwellers who came from the same ethnic, cultural, and religious backgrounds gave their rural brethren.

Since the rural-urban transition took place at different times in different parts of the country, different states have been undergoing its pains since the late 19th century. Consequently, in the memories of those now living there have always been horrible examples of rural-dominated state political systems interfering with the burgeoning cities within their borders, and these examples have obscured the ever-growing number of states that were politically responsive to their cities.

By 1970 few, if any, states had yet to enter the transition period. Put simply, the record reveals that the transition begins when at least 40 per cent of a state’s population is urban and is completed when urban places account for over 60 per cent of the population total. No state is now below that 40 per cent figure, and only 11 (seven of them in the South) are less than 50 per cent urban, but these contain only a bit more than 10 per cent of the country’s population. Another nine fall between 50 and 60 per cent. Before the 40 per cent figure is reached, big cities find it very difficult to gain consideration in their state capitols. This is hardly surprising in a democracy, where majorities rule and overwhelming majorities tend to rule easily. After the 40 per cent figure is reached, the cities can begin to bargain with increasing success. Georgia is a case in point, having passed the 40 per cent mark in 1960 and closed on the 50 per cent mark in 1970.

Past 60 per cent, there is no longer any real contest. Minnesota and Indiana are good examples. Since they passed 60 per cent their legislatures, each in its own way, have opened up to every kind of pro-metropolitan legislation that has been proposed. Ten of the 50 states, containing some 79.4 million people (or nearly 40 per cent of the country’s total population), are 75 per cent urban or more, which means that urban and state interests are essentially identical.

Cities—of varying sizes and with varying interests, to be sure—are in the saddle in virtually all of the states today, and rural-urban conflict has given way to new inter-urban conflicts in whose resolution the state government plays a legitimate and not unfair role, even if the losers, in the great tradition of American politics, holler “foul” at every opportunity. Today the old myth is perpetuated by such phe-
nomena as the political squabbles between New York City and New York State (85 per cent urban)—which are the logical outcome of the inevitable clash between a powerful mayor and an equally powerful governor, both of whom, in the natural course of things, are likely to harbor national political ambitions—and the difficulties Washington, D.C., has because it belongs to no state. Not only are both these cases exceptional, but the squabbling obscures the substantial, if quiet, day-to-day intergovernmental cooperation that prevails even in these jurisdictions.

Even more significant than the fact of urban hegemony in contemporary state-city relations is the fact that state expenditures have grown extraordinarily since World War II, and that most of those expenditures, particularly in the last decade, have been funneled into urban areas, especially big cities. Unfortunately, the great fixed-cost programs such as public welfare, in which the fixed costs keep rising, have absorbed the greater part of these funds so that they are largely unavailable for more innovative uses. Worse for the public image of the states, the funds are so quickly absorbed in this manner that the public is not even aware that they have been increased—but this does not change the fact that they have been.

In fact, the states and the cities themselves have recognized that the day of conflicting state-city interests is past. For several years after it was seriously proposed, revenue sharing itself was held up by a dispute as to whether the cities would receive funds directly from Washington or through their states. In 1971, the Council of State Governments and the National League of Cities reached an agreement which ended the conflict. In a manner entirely consonant with the whole idea of American federalism, they agreed to request that Congress appropriate the monies to the states without even a fixed passthrough formula but with the provision that the states would have to negotiate with their local governments to arrive at a satisfactory distribution of the funds, thereby effectively affirming the cities' new feeling of confidence that the states will be alert to their needs through an ordinary negotiation process. While this was not the formula adopted by Congress, the agreement did pave the way for the passage of general revenue sharing legislation in 1972.

The myth of administrative incompetence

Criticism #2: The states and localities are administratively incapable of properly utilizing any additional powers that might be transferred to them. This myth also has its roots in a partial truth of
the past. When the role of government in American society underwent drastic expansion in the 1930's, Washington did indeed set the pace in the development of a proper bureaucracy to manage the new government programs. Many of the states and localities were either unprepared or too impoverished by the Depression to respond in kind, and some were still too small in size to require so extensive an administrative apparatus. Nevertheless, most states laid the foundations during the Depression years for an administrative system appropriate to the mid-twentieth century, and then built on those foundations after World War II, when the resources denied them by circumstances for 15 years or more became available again.

Today, in my own talks with officials of federal agencies that work with their state and local opposite numbers I have found, even among those not particularly disposed to turn their functions over to other planes of government, a growing consensus affirming the competence of state and local administration. These insiders’ arguments in favor of retaining a strong federal presence are based on real or perceived policy differences between them and the states and localities, not on the question of competence. Nor should this cause any great surprise. The investigations of political scientists over the past decade—totally ignored by the mythologists, of course—have consistently found no substantial difference among the three groups of bureaucrats with respect to background, capability, and dedication to their respective programs. All the studies have shown that, in most program areas, the administrative officials of all three planes of government are drawn from the same professional backgrounds and are committed to the same professional goals.

Perhaps most important, within the past decade the executive agencies of general government in both the states and localities—that is, the offices of the governors and mayors—have generally been strengthened in a manner reminiscent of the strengthening of the President’s office in the 1920's and 1930's. State planning agencies are being developed as arms of the office of governor; executive office staffing has improved in cities as well as in states; and mayors and governors are increasingly using their planning staffs as resources for controlling and coordinating the multifarious activities of their governments, much as our Presidents use the Office of Management and Budget.

A good deal of this improvement has been the consequence of simple growth. While the states range in population from California’s 19.7 million to Alaska’s 300,000, six states, containing 40 per cent of America’s population, have over 10 million people each. Five more,
containing some 15 per cent of the total, have over five million people each. States of this size are bigger than most sovereign countries in today’s world (California is almost as populous as Canada or Argentina, Pennsylvania nearly equals Australia and surpasses Belgium or Chile, New Jersey is larger than Austria, and Michigan is larger than any of the Scandinavian countries or Switzerland). All told, fully half the states have more than three million inhabitants, which means that they are as large as or larger than Ireland, Israel, New Zealand, Norway, or Uruguay—all of them countries acknowledged to be able to sustain themselves as independent nations. This means that sheer growth in population has fostered a growth in social complexity and internal resources (human and material) that, in turn, has led to more sophisticated governmental responses.

It is true that smaller states may be unable to mobilize the resources necessary for across-the-board governmental sophistication (although all major programs, both in large states and small, are now managed by personnel of relatively equal competence). Yet in many such cases local norms and expectations do not encourage “sophisticated” government on the federal model. Supposed “deficiencies” in these states and localities are often mere reflections of the tastes and wishes of their citizens.

None of the foregoing is intended to suggest that there are no problems facing state and local administrations or that all business is efficiently conducted in the states and localities; but by the same token, no one is about to claim that the federal administration is without its serious problems either. Not many Americans would deny Washington the wherewithal to administer programs because of the TFX scandal or the Post Office mess or the lack of coordination within HEW. No government has a monopoly on efficiency—or inefficiency—in the United States today. Consequently, decisions as to where to locate responsibility must hinge on other criteria.

The problem of corruption

Criticism #3: Even if the states and localities now have enough in common and sufficient administrative skills to handle the additional powers, corruption and vested interests will prevent them from utilizing those powers well. The “local corruption” argument, another favorite myth in the American political repertoire, has at least two serious inadequacies. One is a question of fact. As a group, state and local governments today are far less corrupt in the usual
sense of the term than at any time in the past 100 years. When it comes to "conventional" corruption, the same can be said of the federal government. (The kind of corruption represented by Watergate is something new—and it is far more dangerous than old-fashioned graft and influence-peddling). A whole host of factors having to do with changes in American society have operated to reduce at all planes of government the relatively crude forms of political payoff common at the turn of the century and earlier.

This is not to suggest that there is no longer any old-fashioned corruption in government in the United States. The real question here, however, is whether Bobby Baker's style of corruption is somehow less pernicious or objectionable than that of the ex-mayor of Newark? I doubt it. Payoffs, slush funds, and links with organized crime are no more defensible when they involve federal officials than when they involve state or local ones. For that matter, there is little to be said for private corporations in this connection either, particularly in the wake of the scandal surrounding the Penn Central bankruptcy and other such examples of corporate malfeasance.

The morality of public business—governmental or nongovernmental—is rightfully a matter of concern in the United States today, but strengthening the position of the states and localities should not be contingent on that question. It may indeed be argued with considerable justice that supposed differences in the extent of corruption at the various planes of government only reflect the fact that influence-peddling in Washington is usually more genteel—since it involves the country's great enterprises—than the simpler forms involving "common folk" in the states and localities. By the same token, it may be that corruption closer to home at least gets spread more widely among those who need money than corruption in high places, which tends to reward the already privileged only. And in any event, it is important to remember that corruption at the federal plane affects the entire country, whereas at the state and local planes the consequences stop at the state or city boundaries.

A second weakness of the "local corruption" argument is its tendency to overestimate the extent to which corruption, where it exists, affects the delivery of governmental services. There are many indications that corruption has far less influence on governmental performance today than it did 80 or 100 years ago. This is because the nature of corruption has changed; the old days of straightforward bribery and "buying" of public officials have generally disappeared. Today, practices are more subtle; characteristically, they involve rewarding one's friends with favors rather than blocking proposed government
activities. The lucrative business today is in the awarding of contracts for the delivery of services, a system which more or less guarantees that services will be delivered one way or another. Consequently, whether corruption exists or not, the services will.\(^2\)

Corruption is a perennial governmental problem, and it is usually related to norms rooted in the local culture. By all accounts, states like Michigan, Minnesota, Virginia, and Utah are far less corrupt than the federal government. New York, North Carolina, and Pennsylvania are probably on a par with Washington in this respect, while Indiana, Louisiana, New Jersey, and Texas are probably more corrupt. Even the above list indicates that there is no simple correlation between corruption and the quality of government.

Much the same argument can be made in the case of waste. There are clearly no grounds for believing that one plane of government is more wasteful than the others, though the way in which their wastefulness is manifested may differ. Personal deficiencies of public officials cause waste and inefficiency in some of the smaller states and localities, but no more than is generated by red tape in very large bureaucracies like the federal government today.

Nor do vested interests in the states and localities cause more "distortions" of public policy than those in Washington. This proposition has been well tested in recent years as the federal government has extended its regulatory powers over coal mining, boating, flammable clothes, and, most recently, industrial safety, supposedly in response to state "failures." It has become increasingly apparent that federal regulation has meant not higher standards in these areas but an adjustment of standards toward a national mean that suits the interests of the parties being regulated, often to the dismay of those who championed federal intervention in the first place on the ground that federal action would obviously mean higher standards.

**Why are federal funds needed?**

*Criticism #4: The states and localities have failed to assume their*
proper fiscal obligations, and there is no reason why the federal government should bail them out. If the truth be known, the states and localities have borne the brunt of the effort to cope with increased demand for domestic services since the end of World War II. No matter what base period is used, the fiscal data confirm this. Since 1946, state and local revenues from their own sources have risen from under $10 billion to over $100 billion, or by more than 10 times, while federal revenues have only quadrupled. Between 1960 and 1969—a decade of great expansion of federal activities—federal expenditures rose 69 per cent, including increases for the Vietnam war, but state and local expenditures rose 76 per cent. For only a few brief years during the mid-1960's at the height of the Great Society did federal expenditures increase at the same rate as those of the states and cities.

In 1969, three fifths of the states with their local governments spent over $2 billion annually. Approximately two fifths spent over $4 billion. No state (with its localities) spent less than $0.5 billion. The present Administration has announced that California and New York stand to gain half a billion dollars each from revenue sharing, yet the state and local governments of each now spend in the vicinity of $30 billion annually.

The diversion of federal resources to the Vietnam war increased the burden on the states and localities to support domestic government activities. (Under the Constitution, this is how it should be; those who believe in strong state and local government cannot find fault in an arrangement whereby the states and localities provide something like two thirds of the funds for domestic purposes and the federal government approximately one third.) The states and localities did not shirk their responsibility to provide this larger share. In any given year, approximately four fifths of the states increase their taxes to pay for new services or added costs. Their problem is that they are caught either way. If they fail to provide adequate services, they are faulted for their failure. If they supply adequate services, the steady increase in fixed costs puts them near bankruptcy. David Grossman, Deputy Director of the Bureau of Budget of New York City, has demonstrated that mandated costs have resulted in annual increases of 15 per cent in the city's base budget in recent years. This means that the city must find $1.2 billion in new funds every year. Other big cities are luckier. Their mandated costs are increasing at a rate of only 10 per cent per year. Indeed, more than one mayor or governor has suffered defeat at the polls because an electorate lashed out at him for raising taxes to meet these rising costs. The truth is that in all too many cases the mayoralty or governorship has become
a one-term office, not because of constitutional restrictions (which have by and large been eliminated since the end of World War II), but because of responsible action on the part of the incumbent.

At the same time, the federal government, with its foreign involvements taking precedence (and that is as it should be), has maintained its dominant role in the income tax field. There is where the crunch lies. Should Congress in its wisdom decide to drastically reduce the federal income tax, even without any formal provision for enhancing state revenues in the form of state tax credits or the like, there is little doubt that the states and localities would pick up the slack without any outside compulsion to do so. This thesis has even been tested in a limited way. When the federal government last cut taxes during the Kennedy Administration, state and local revenues increased automatically as the released funds poured into the economy to be taxed by those governments under existing levies; but, in addition, after a year's delay, no more, most states and localities raised their own taxes to absorb an even bigger share of the reduction, primarily because of the demands placed upon them by their own citizens.

Even the argument about the regressiveness of state taxes has lost potency in the last decade. Forty-five states now collect a state income tax, and several of the remaining states, which rely exclusively on the sales tax, have made that tax a far less regressive instrument than it once was by exempting such necessities as food, clothing, and medicine. As Dick Netzer has shown, a properly constructed sales tax can be less regressive than some income taxes. Only in the case of local reliance on property taxes is serious regressiveness still built into the system, but even here many states are now providing some relief for low-income taxpayers to the extent that they are fiscally able to do so. In fact, additional states are moving toward the adoption of statewide income taxes every year. What seems to be holding them back (and holding others back from substantially increasing their rates) is the already onerous burden of the federal income tax, which has virtually preempted the field.

There are good reasons for utilizing federally collected funds for increasing state and local revenues in a manner that provides some inter-state equalization and does not penalize the more progressive states in competing for new industry. But the need for revenue sharing does not mean that the states (with two or three exceptions) have been negligent or remiss in bearing the fiscal burdens placed upon them by their Constitutional responsibility for most of the domestic functions of government.
Will federal money be wisely used?

Criticism #5: The states and localities will dissipate federal money given them without any strings attached instead of using the funds where they are most needed. The governmental functions which generate the heaviest drains on the country's fiscal resources—education, welfare, health, transportation—are precisely the ones whose necessity is generally accepted in all parts of the country or which have well-established clientele and interest-group support. The chances that any state or locality could easily ignore that public support is exceedingly slight. It has become entirely clear, in the study of federal aid programs, that once a program becomes routinized, there is rarely any difference of opinion among the planes of government as to the necessity for maintaining it. If anything, there is a tendency to freeze such programs in. There is absolutely no reason to doubt that the bulk of any shared revenues would be used to meet well-defined, well-established, and well-supported needs in these essential areas.

There is a historical precedent here which may be apt. In 1837, the federal government decided to distribute surplus revenue in the federal treasury to the states for use in meeting domestic needs that Congress felt the federal government was prohibited from undertaking directly. At that time, the great needs were for the creation of public elementary schools, the establishment of public welfare institutions, and the construction of internal improvements (particularly roads, canals, and railroads). There were those in Congress who wanted to specify, in the legislation granting the funds, that they would be used for these purposes, but the strict Constitutional constructionists of the time felt that this would be an improper exercise of federal power. The money was ultimately distributed with no formal strings but with the understanding that it would be used for such purposes—and indeed it was. While not every penny was well used (what government can ever make that claim?), a substantial share was; much of it was invested in permanent funds, with the interest to be used to support the functions in question for many years. Many of the state and local public school systems, public institutions, and even highways of today trace their origins to the surplus distribution of 1837, and more than a few are still benefiting from it.

Unrestricted revenue sharing is not likely to produce much revenue for governmental innovation or for programs less solidly established than the ones already alluded to, except in those progressive states where the drive for such programs is already strong. Were the
federal government to rely entirely upon revenue sharing to foster national goals, this might well prove to be a problem. It is clear however, that revenue sharing is not designed to replace all categorical grants, but rather to be part of a "mix" of federal aids organized to bring about maximum efficiency in the delivery of government services with the minimum amount of red tape or extra-local control. It is assumed that categorical programs (and, for that matter, block grants) will continue to exist and, indeed, that new ones will be inaugurated when there seems to be a need to use that device to stimulate state and local activities in new areas. But where there are established programs, common professional standards of administration, general agreement as to the policies to be pursued, and local differences regarding the best way to achieve the goals embodied in those policies, revenue sharing can be a powerful and useful tool.

The case for localism

There are those who assert that, since the national government is in many respects as close to the people as local government, there is no need to sacrifice the virtues of national uniformity for the will-o'-the-wisp of local control. Given the ease of nationwide communications today, it is reasonable to argue that national political figures can reach out to their constituents in ways that make them better known than their state and local counterparts. At the same time, however, one-way communication through the media is not the only—or even the best—measure of closeness. Granted that more people watch the President on television than the mayor, it is still questionable whether sheer visibility without the possibilities of interaction constitutes "closeness" in the sense that a democracy requires. Moreover, the sheer size of the national bureaucracy creates a degree of remoteness, inefficiency, and waste that rivals that of the least professionalized state government.

But efficiency is by no means the only value involved here. Part of the strength of the American political system derives from our understanding that where men are free it is not always necessary to use direct national action to achieve national goals. Often, they can be as effectively achieved through local or state action, and in such cases the results are almost certain to be more enduring because the decisions are more solidly rooted in public opinion. The history of the great innovations in the American federal system affirms the truth of this proposition. When we created a public education sys-
tem in the United States over 100 years ago, we did so as a matter of national policy, but we accomplished the task through local action accompanied by state and national assistance of various kinds. Our highway and welfare systems were built in essentially the same way. This general technique is an aspect of the genius of American politics.

Today there is much discussion of, and growing support for, the idea of local control—of the restoration of local self-government insofar as that is possible in our complex world. I believe this is a responsible and hopeful movement of opinion. It is not a question of whether the federal government shall abdicate its role in domestic policy; that would be as impossible as it is undesirable. The growing demand of Americans today is rather that the federal role be adjusted to accommodate the goal of local self-determination. Increasingly, it would seem, we are rediscovering the special virtues of local self-government which the Founding Fathers understood so well, and which no one in our time has set forth better than Ignazio Silone in his *School for Dictators*:

> The first test to be applied in judging an alleged democracy is the degree of self-governing attained by its local institutions. If the master's rule in the factories is absolute, if the trade unions are controlled by bureaucracies, if the province is governed by the representative of the central government, there can be no true and complete democracy. Only local government can accustom men to responsibility and independence, and enable them to take part in the wider life of the state.

I do not doubt that, in some places, greater local responsibility for making and administering public policy will engender results that liberals and persons whose concern for a particular program is unmodified by other interests will find disagreeable. In other places, the result will be just as disturbing to conservatives and to those whose opposition to particular programs is untampered by any other interest. This is the price of democracy. No doubt it is a price worth arguing about. But those who choose to discuss the issue should do so on its merits, not on the basis of the myths which have hitherto obscured them. Today there is simply no justification for thinking that the states and localities, either in principle or in practice, are less able to do the job than the federal government. In fact, there is some reason to believe that, even with their weaknesses, they will prove better able to restore public confidence in America's political institutions.