New Dimensions in Intergovernmental Fiscal Relations in the United States:

Alternatives to the Current Federal Role and Strategy

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Introduction

The year 1972 may mark the beginning of new era in intergovernmental relations with the establishment of general revenue sharing system. Funds made available for sharing Federal Revenue are still relatively limited, for the State and Local Assistance Act of 1972(P.L. 92-512) allocates $5.3 billion as the first year outlay of a $30.2 billion five year program. However, its implications are enormous.

Some people already talk about the possibility of phasing out most of the categorical grant programs, while others feel that they can be converted into either special revenue sharing or block grants. Within the new few years we shall, also, witness not only the expanded general revenue sharing system (in terms of money) but also its evolution as a permanent feature of "new" federalism. In any case, the Federal Government will manage directly only a limited number of categorical grant programs and the rest will be given to the States and localities in a form which they presumably will find most useful.

On the other hand, the opposition has been building its case against the president's so-called "New Federalisms." It consists of many vocal critics in the 93rd Congress, interest groups which will be adversely affected by the President's programs, and those individuals—largely the poor —who feel that the Federal Government is abandoning them and hence putting them into the hands of the State and local power structures that have not been responsive to their needs in the past. The vast majority of witnesses appearing before various Congressional committees such as Senator Muskie's Subcommittee on Intergovernmental Relations have spoken against the President's New Federalism, particularly on the proposed 1974 budget, which in their opinion abdicates the Federal responsibility for social programs which were enacted during the Kennedy and Johnson years. Big city mayors and Governors in large States almost unanimously attacked the Administration's plan to cut what they consider to be worthwhile social programs, along with its plans of Federal decentralization and special revenue sharing or block grant programs—especially when such actions are taken with the view of reducing Federal money previously allocated under the categorical programs.

Under these circumstances, it is important to reassess the changing intergovernmental relations, with the view of properly determining the

the role of Federal Government in the 1970s.

'?he Present Pattern of I ıtergovernmental Fiscal Transfers

In fiscal ; ear 1973, total direct Federal financial assistance o State and local governments, including grants, shared revenues, and loans, is estimated to b($43.8 billion, an increased of $4.4 billion ovei the 1972 figure and five times the amount in 1963. Of this amount $43.5 billion will take t :e form of grants, accounting for about 99% of th(total aid. Mo:ney is given to the State and local g ›vernments through some 530 categorical grant administered by various Federal agencies, \ ith varying administrative requirements, div‹ rse eligibility provisions and differing matching f rmulas. In total, Federal aid programs will provid about 21% of State and local revenues in 19 '3, as compared to 17.9% in 1971. However,tl :y are expected to spend an estimated $13 to $: 5 billion of their own funds to match Federal gr: nts in 1973, bcauese State and local governmen s usually spent about 10% of their revenue so ırces in the Federal matching requirements in ı :cent years.(1) Fiscal 1974 Federal estimates fo: aiding State and local governments generally eflect the 1973 figures. In 1974, the total Fedeı al aid will amount to $45.2 billion, which will finance about 21.3% of State and local expenditur s for the same year.(2)

In gener ıl, Federal grants to the States and localities a ·e non-repayable resources provided by the Fed ral Government in support of a State or local p: ogram of service to the public. So far, the Federe . Government relied exclusively upon *conditional* or *strings attached* grants, although in 1972 the (eneral Revenue Sharing has brought about the ***unconditional*** or ***no strings attached*** grants (even here some constraints are imposed, e.g., in prohibiting its use for education) which will increasingly give State and local governments greater freedom to handle what are primarily State and local responsibilities. It should be noted, however, that the major method that has been used in expanding Federal functions in domestic services is a system referred to as "grant-in-aid" or "categorical grant" programs—that include "block" grants, "formula" grants, and "project" grants. The *formula* grants device has been regarded as the traditional from of Federal aid to the States and localities until the beginning of the last decade; however, during the 1960s there was a sharp increase in the use of the *project* grants device which accounted for $11.7 billion in 1970. In the last few years there has been some movement to try to adopt the *block* grant approach but so far it has not been widely utilized by Federal agencics.

Under a federal grant-in-aid program, Federal Government provides funds directly to State and /or local governments, with the usual provision that money paid or furnished to States and localities are to be used for specified purposes(categories), subject to conditions spelled out in statutes or administrative regulations. Lately, the *project* grants device has been increasingly used by Federal agencies on the grounds that it permits Federal administrators to make selective emphasis on new and emerging problems and needs of the national community, with speed and decisiveness. This has been particularly true with Federal programs dealing with the problems of urban areas such as law enforcement and public assistance. It is estimated that in 1974 $31.4 billion of the $44.8 billion of total Federal

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(1) U.S. Office of Management and Budget, *Special Analyses: Budget of the U.S., Fiscal Year 1973* (Washington, D.C.: GPO, 1972), 239-46.

(2) U.S. Office of Management and Budget, *Special Analyses: Budget of the U.S., Fiscal Year 1974* (Washington, D.C.: GPO, 1973), 209-25.

grants will be spent in or will directly affect, 269 standard metropolitan statistical areas (SMSA's), where about 70% of the U.S. population (which places heavy pressure on public service requirements) lives today. This is an increase of $25.8 billion, or almost 460% more than the level provided to these urban areas in 1964.[3]

As a result, in dealing with local governments, the Federal Government has developed a tendency of entering into direct administrative and financial relationships with local governments, often by passing and short-circuiting the States. We also witnessed the growth of what is referred to as "private federalism," a system by which Federal Government makes grants-in-aid to private individuals, institutions, schools, and universities, in engaging in such activities as health and manpower research, development, and training programs (e.g. administered by HEW's SRS and NIH), community action programs (administered by OEO), and model cities-funded community development agencies.

In 1972, for example, the Federal Government operated about 1,060 separate grant-in-aid programs under 520 congressional authorizations. It gave the State and local governments the total dollar value of $43.5 billion, which did not include programs that disburse money directly to individuals in the form of income security payments such as social security and unemployment compensation. Yet, neither the Federal Government nor the States and local governments knew how much Federal money flowed into any given geographical area of the country, be it a State, a county or a city. This fact was confirmed in studies conducted in various cities, such as New Orleans, La., San Jose, Calif., and Chattanooga, Tenn. In a Richmond, Va. study an OMB-led team concluded that while the city received some $30.7 million in 1970, which amounted to 11% of the city budget that year, neither the Federal Government nor the city had sufficient information as to how many Federal programs were operating in the city, where the money went, or who the administering agencies were.[4]

According to Daniel P. Moynihan, who served as President Nixon's Special Assistant for Domestic Affairs, this lack of specific information about the nature, scope, and effects of Federal programs was due to the rapid rise of "paragovernments" in the 1960s under the social programs sponsored by the Kennedy and Johnson Administrations.[5] The term "paragovernment" refers to the great number of *ad hoc, quasigovernments* established by the grant-in-aid programs enacted by Congress in the 1960s. These agencies are semi-public bodies that operate the local projects funded by the categorical programs; generally, they are *nonprofit* and operate independently of the general-purpose governments at the State and local level. Operating almost entirely with Federal funds, they administered programs such as mental health systems, anti-poverty programs, model cities programs and manpower programs. These semipublic agencies in a partnership with Federal bureaucracy in Washington became competing power centers in the localities, thus often coming into conflict with the local general-purpose governments which had practically no local budgetary controls over them. In addition, many State and local public agencies have built up a similar relationship with their Federal counterparts in

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(3) *Ibid.*, pp. 218-219.

(4) William Lilley III, Timothy B. Clark and John K. Iglehart, "New Federalism Report: Nixon Attack on Grant Programs Aims to Simplify Structure, Give Greater Local Control," *National Journal*, Vol. 5, No. 3 (January 20, 1973), p. 79.

(5) See Daniel P. Moynihan, *Maixmum Feasible Misunderstanding: Community Action in the War on Poverty* (New York: Free Press, 1969).

such a way that it became almost impossible for the chief executives of the State and local governments to control them. Consequently, the rapid expansion of overall Federal "project" grants had the effect of stimulating professionalism of grantmanship, distorting the State and local priorities, and of increasing the power and discretion of Federal administrators. This is one of the reasons why President Nixon, under his philosophy of New Federalism, is determined to drastically change the Federal-State-local relations in order to curtail or eliminate paragovernments, reduce the power of bureaucracies both in Washington and in the States and to give maximum freedom to the executive heads of the State and local governments in setting their own proirties and in the use of Federal money.

Reforms under New Federalism

As a first step, the Nixon Administration is determined to change the basic characteristics of the categorical system of Federal assistance either through legislation or administrative action, or both. After its initial success with the passage of the general revenue sharing law last year, the Administration is attempting to simplify the grant system's statutory structure through its special revenue sharing proposals (which will be discussed in detail in the next section). Other significant legislative proposals are the Allied Services Act (which would give Governors the authority to integrate HEW social services programs), the revision of Highway Trust Fund(to give city mayors access to the Fund so that it can be used for mass transportation facilities) and the Executive Reorganization (which will reduce the number of departments from 12 to eight to make them more responsive to State and local needs).

Administratively, the President has taken at least eight major steps to decentralize the Federal operations and streamline the categorical system of grants-in-aid. They are:

First, Mr. Nixon reorganized the Office of Management and Budget and established the new Domestic Council for the purpose of making them as major policy making apparatus of the White House. Since the beginning of his second term, the President has also established his supercabinet. It consists of five Assistants to the President at the top of the second tier, three Cabinet Secretaries who have been designated as Counselors to the President. In addition, he has placed a host of most trustworthy persons, largely former officials of the White House staff and employees of the Committee to Re-elect the President, whom he hopes will help to put his imprint on the Federal bureacracy in key executive positions in almost every department.(6)

Second, the President made two organizations—namely the OMB and the Domestic Council—as his major instruments in furthering decentralization of the seven major domestic departments and agencies (HUD, HEW, Labor, Transportation, OEO, EPA and LEAA). The Administration is accelerating its efforts to decentralize almost all operations of the domestic agencies with the exception of those functions that cannot lend themselves to decentralized administration (for example, certain types of research and development or other processes that, by their nature, are most efficiently performed in a single location). HEW Secretary Weinberger, in his directive issued on March 6, 1973, states that under a decentralized management system, the headquarters staff will be able to focus attention on the development and evaluation of policies and programs associated with the mission of the department, while the regional officials (who will assume authorities heretofore retained at the headquarters) will deal directly and significantly with State and local governments and others who do

(6) See *The New York Times*, March 20, 1973, pp. 1, 27.

business with HEW.

Third, during his first year in the White House, Mr. Nixon issued an executive order, which directed all the major domestic departments and agencies to establish common regional boundaries. As a result, most of the Federal agencies now operate from ten regional offices. These offices—located in Boston, New York, Philadelphia, Atlanta, Chicago, Dallas, Denver, San Francisco, Seattle and Kansas City, Mo.— are to bring the Federal Government closer to people in a more meaningful way than by spreading agencies all over the country (as in the past).

Fourth, at the same time the President established the Federal Regional Councils (FRCs) in the ten regions to bring about better coordination of Federal programs between and among the various departments and agencies' regional offices in meeting the needs of State and local general purpose governments in their regions. The above seven agencies' representatives now sit in the FRCs in their regions, while the Council chairmen are GS-18 Presidential appointees.

Fifth, in February 1972 the President established an "Under Secretaries Group for Regional Operations" to monitor the decentralization process and solve any problems that cannot be resolved in either the field or the agency headquarters in Washington. Since its creation, however, it has acted as a sort of centralized grant consolidation agency in making interagency funding projects of even less than $100,000. The group, which consists of the Under Secretaries and the number-two men in the seven agencies that constitute the FRCs, meets twice a month and is chaired by the Associate Director of OMB.

Sixth, OMB issued a number of circulars and directives aimed at cutting bureaucratic power and redtape, thus strengthening the power of State and local general purpose governments. A good example is Circular A-102 which was originally issued on October 19, 1971, and amended a few times since. It simplified not only the procedure of applying for Federal categorical assistance by the State and local governments, but also set up uniform administrative requirements for categorical grant-in-aid programs that they receive annually.

Seventh, OMB established "Integrated Grant Administration (IGA) Program," under which State and local public agencies can apply for a number of Federal assistance(mainly discretionary) grants administered by two or more Federal agencies by a single application.(7) This type of program also exist at the departmental level. At DHEW, for example, the program is known as the "Consolidated Funding System," which is a management device that provides an applicant with a simplified means by which to request and receive financial assistance from more than one DHEW program.(8) At the agency level, too, there has been established a similar system. At Social and Rehabilitation Service, which is a major component of DHEW, the system is based on the "one door" concept so that there would be a single source and a single application for discretionary grant programs which distributed $212 million to public and private organizations in 1972.(9) In all of these grant integration and /or consolidation systems, Federal officials in their respective regional offices—FRCs, Regional Directors, and Regional Administrators or Commissioners play major role in approving grant applications and monitoring them at the regional level.

Eighth, and finally, a number of Federal agencies are experimenting with different techniques

(7) See OMB, *The Integrated Grant Administration (IGA) Program* (issued January 14, 1972).
(8) DHEW, *Fact Sheet: The Consolidated Funding System* (issued January, 1973).
(9) See Albert Rotundo, "The SRS System for Project Grants," *Human Needs*, Vol. 1, No. (February, 1973), pp. 21-23.

to augment the power of chief executives of the State and city governments(often at the expense of counties and other local units of government) so that the elected mayors and Governors can exercise control over their functional bureaucracies (which became too big to control). For example, the former HEW Secretary Richardson waived an HEW regulation to California so that Governor Reagan can experiment with his welfare policy which requires the recipients to take either whatever jobs offered to them or suffer loss of support. HUD has been experimenting what is known as "Planned Variations" under which mayors in twenty cities are given the power of Chief Executive Review and Comment (CERC). It gives the mayors the power to review and comment on all Federal grants impacting on their cities, including grants made to their own city agencies, private groups and other units of government (such as counties or towns). In addition, under the Presidential directive issued on July 29, 1971, these mayors in the 20 cities (which were selected out of 147 cities that participated in the Model Cities program in that year) are given two additional powers. One is the authority to receive waivers of Federal regulations for categorical programs used in conjunction with Model Cities plans, and the other is the authority to spend Model Cities subsidies on a citywide basis rather than in selected neighborhoods. Thus, in theory, they are able to decide the allocation and use of Federal money impacting on their cities.

One other experiment run by HUD that deserves a special mention is a two-years old program referred to as Annual Arrangements. There are some 100 cities that participate in the program. It is an administrative device by which HUD gives its grant money to a client city in one annual lump sum, according to a contract signed by the department and by the city's mayor. Before signing such a contract the city's mayor, however, is expected to develop a comprehensive citywide development strategy in the use of all HUD-funded programs (such as model cities, urban renewal, public housing, etc.) which must be approved by HUD in a series of negotiations. Again, as in the case of CERC, the program is designed to give the mayor the total control over all HUD programs in his city.(10)

In spite of these reforms initiated by the Nixon Administration in the last few years, leaders in the Administration believe that nothing short of the complete overhaul of the categorical system of grants-in-aid (which has grown too rapidly in the 1960s from less than 200 to more than 1,000 programs) can make the Federal Government to respond in any meaningful way to problems around the country. To them (and other critics who agree with the essence of Mr. Nixon's New Federalism), the Federal Government has become too big, too powerful and too complicated to be managed, largely due to the rapid growth of categorical grant programs.

Thus, it is noteworthy that with the submission of his fiscal 1974 budget message to Congress, the President has taken two additional controversial actions. One is the impoundment of funds for the programs for which Congress has already appropriated money. Critics charge that many of these programs so affected by the Presidential action happened to be the kind of social programs with which he disagrees. In a recent report released to Congress,(11) Allen Schick of Congressional Research Service contends that President Nixon has impounded some $18 billion on civilian

(10) See, for example, Timothy B. Clark, John K. Iglehart and William Lilley III, "New Federalism VI: Rivalris," *National Journal*, Vol. 4, No. 51 (December 16, 1972), pp. 1936-1940.

(11) Allen Schick, "Presidential Impoundment of Funds,(A report to Congressman Robert L. Leggett on 8, 1973), reprinted in *Congressional Record*, 93rd Congress, 1st Session, Vol. 119, No. 41 Part II (March 15, 1973), pp. E1586-1587.

programs (not on the military programs), far above the amounts withheld by any previous President. Traditionally, administrations have used impoundments for routine financial and administrative purposes—especially to regulate the flow of funds to agencies; however, when agency plans firmed, the impounded money was released by OMB. In the case of the current impoundment cases, the Administration's approach is sharply different from impoundments of previous administrations in size, scope and intent. As Schick states, "the current impoundments are for the purpose of terminating or curtailing programs approved by Congress. This is the use of impoundment power to over-ride Congressional will, to change national policies and priorities."[12]

The total amount of impoundment reported by the Administration is only $8.7 billion. In the 1974 budget[13] and the impoundment report submitted on February 5, 1973, the Administration justified the elimination or curtailment of more than 100 impounded programs mostly on the grounds that such action is needed to hold down spending and to maintain economic stability. President Nixon also justified that the impoundment of funds by the executive branch as an old device used by Presidents dating back to Thomas Jefferson.

In any event, Congress is now considering various ways of countering the President, including the passage of anti-impoundment bill. The controversy is around the central question of who, the President or Congress, should be responsible for setting national policies and priorities.

The other controversial action is the President's attempt to dismantle the Office of Ecconomic Opportunity, among others, by the end of the current fiscal year, June 30. The President made his plan known in the 1974 budget and immediately began to dismantle the agency through OEO Acting Director Howard J. Phillips, in spite of the fact that Congress has not acted on it. In the meantime, while Congress and critics complain about the Administration's action, OEO is actually being phased out by administrative action.[14] This again raises interesting questions as to whether the President can direct the withdrawing of any government program with which he disagree; what the exact role of Congress is in approving or disapproving or withdrawing national laws and programs; whether the President can cut federal spending without Congressional approval; whether such action is the usurption of Presidential power, thus circumventing Congressional authority. These are some of the questions that must be answered out of the current constitutional crisis.

In the end, however, it is inconceivable to think that the President can restructure the kind of categorical grant system he wants by his administrative action alone, without the active legislative support and concurrence of Congress. Neither can he expect to move Congression to his side without the general support of population at large, including that of leaders of State and local governments. In any case, any major change in public policy, whether it be the categorical system or executive reorganization, must be made through Congressional action. That is the reality of our constitutional system.

Alternatives to the Current Federal Role and Strategy

What, then, are alternatives to the current

(12) *Ibid.*, p. E1587.
(13) See U.S. Office of Management and Budget, *Budget of the U.S.,Fiscal Year 1974* (Washington, D.C.: GPO, 1973), pp. 50-57.
(14) See Lawrence Meyer, "Dismantling of OEO Has Bad Day in Court," *The Washington Post*, March 23, 1973, p. 6.

over-categorized grant-in-aid system? In considering any alternative course of action, it is necessary to appraise what other types of intergovernmental fiscal transaction exist today. If the technique of spectrum analysis is used in ranking the various representative types of Federal financial assistance from least to most flexibility in terms of end use by recipient and Federal control and accountabilility, the following order can be established from the viewpoint of recipients (States and localities):

By the same token, the following detailed order

Least Flexibility — Most Flexibility

Categorical Project Grants → Categorical Formula Grants → Block Grants → Special Revenue Sharing → General Revenue Sharing

can be established from the viewpoint of the Federal Government in terms of its ability to control all types of financial aid given to State and local governments, especially in connection with the recipients' fiscal, programmatic, and accountability matters:

Least Controllability — Most Controllability

No Federal Role → Shared Revenues → Tax Coordination → General Revenue Sharing → Special Revenue Sharing →

Block Grants → Categorical "Formula" Grants → Categorical "Project" Grants → Loans → Matching Requirements to Federal Grants →

Federalization

There are, at present, at least four major alternatives to the categorical system of grants-in-aid that would require legislative approval before any of them can be fully implemented by the Administration. They are sequentially presented in terms of decreasing Federal control, as follows:

1. federalization;
2. block grants;
3. special revenue sharing;
4. general revenue sharing.

1. *Federalization.* An example of this device is the "nationalization" of the social security system. In the field of public welfare, we are aware of the fact that there are increasing pressures for the establishment of "nationalized" public welfare system. Among many reasons cited for such a move, the following is most noteworthy: No amount of Federal revenue sharing or any other system, except complete nationalization, can eliminate the tremendous inequities in our present public welfare system. This is largely due to the fact that the United States has fifty different State welfare programs and over a thousand local welfare programs. The resulting disparities create serious social problems, in that "more than twenty States do not accept all the federal funds available to help needy families because of their reluctance or inability to appropriate matching funds.[15] Hence, a growing number of State and local officials (and interest groups) now strongly endorse Federal assumption of complete financial responsibility for public assistance and medicaid. Such a federal takeover would provide both a just method for assisting the poor and a fair procedure for spreading welfare costs across the body politic.

(15) Committee for Economic Development, *Improving the Public Welfare System* (New York: CED, 1970), p. 48.

President Nixon proposed the Family Assistance Plan to the 81s Congress which would have made welfare standards more uniform and provided a somewhat higher level of Federal support. On June 22, 1971, the House passed a more comprehensive welfare-social security bill (H.R.1). Without going into details, it can be stated that the passage of this bill would have brought a federalized welfare program, thus freeing some $ 6 billion to State and local governments to be used for their other pressing problems.

In 1972 Congress passed a revised H.R.1 as an amendment to the Social Security Act. Provisions in that law shift responsibility for administering public assistance for the aged, blind, and disabled, from the States to the Federal Government—namely to the Social Security Administration. Thus, outlays of nearly $ 1.7 billion will be made as direct transfers to individuals beginning in the second half of 1974 rather than as grants to the States and localities, giving those governments the option of a substantial savings in matching payments. In addition, however, the Federal Government is expected to spend about $ 11.682 billion for various income security payments for which the State and local governments are expected to match varying amounts of their share as in the past.

In the 1973 State of the Union Message on human resources, the President announced that he has decided to drop the Family Assistance Plan as one of his Adminstration's major goals. However, it is fair to say that a significant beginning has been made in the federalization of public welfare system with the passage of a limited H.R.1 in 1972.

2. *Block Grants.* Federal Government has utilized a block grant approach only since the mid-1960s. The block grant is a method of consolidating a number of related categorical grant programs. Such grant consolidation allows more flexible use of the grant money than would the previous narrowly defined separate grants. For example, Title 1 of the Omnibus Crime Control and Safe Streets Act of 1968 established the national government's first comprehensive grant-in-aid program for assisting State and local crime reduction efforts. In dealing with the broad area of law enforcement and criminal justice administration, the Act accorded the States major responsibility for planning, administering, and coordinating anti-crime programs and minimized the role of Congress and Federal agencies in setting priorities. This permits, in theory, States and local governing units to receive financial assistance on the basis of what they think they know is necessary, by eliminating many of the problems of the categorical grants. It, however, does not mean that federal control of the program has been eliminated through the block grant device.

Thus, from the viewpoint of States the block grant approach also has its shortcomings as in the case of categorical grants, because the block grant system retains many of the Federal requirements such as 1) requirements for matching funds, 2) maintenance of effort, and 3) prior approval of the State and local plans by the Federal Government. While it had the effect of increasing the role of the States in relationship to their political subdivisions (local governments), it also created additional State-local governmental tensions over the question of the proper supervisory role or capacity of the States over localities (in fiscal, administrative, or accountability matters). In any case, since the passage of the Safe Streets Act there has not occurred a wholesale conversion of categorical grants into block grants.

3. *Special Revenue Sharing*. In the 1971 State of the Union Message, when he proposed a $ 5 billion general revenue sharing, President Nixon also came out with his concept of special revenue sharing. He proposed another $ 1 biblilon in special revenue sharing to be provided to the States

and localities, by allocating $1 billion of new funds and converting one third of the money going into the present narrow-purpose aid programs into Federal special revenue sharing funds for six broad purposes—for rural development, urban development, education, transportation, job training, and law enforcement— but with the States and localities making their own decisions on how it would be spent within each category. Such conversion would have the effect of reducing the number of categorical programs from 530 to 130.

Unlike both categorical and block grants, special revenue sharing would require no matching funds, no maintenance of effort, and no prior project approval. It is also different from matching (open) grant in that it is a closed-end fund, designed to give States and localities maximum flexibility in meeting their problems in the broadly defined areas of national interest. Finally, it differs from General Revenue Sharing in that the latter would be linked continuously to revenue sources, while special revenue sharing would require a new appropriation each year.

This method is considered most useful if the purpose of Federal Government involvement is to redistribute among States the capacity to fund some types of *specific* (but not all) programs, because it aims at a basic minimum level of State spending in a certain program area (without closely controlling the details of what the State does). Its use is justified if the Federal Government is convinced of the capability of the States and local governments to engage in such program activities because they already have technical know-how and established their administrative infrastructures to do the job. There must have developed a successful working relationship between the States and localities on one hand and the Federal regional offices on the other. By the time special revenue sharing goes into effect, the Federal decentralization effort too should have succeeded to the extent that both central headquarters staffs and regional staffs can engage in what they are supposed to be engaged in the first place-monitoring, evaluating and assisting State and local activities in their program areas.

For fiscal 1974 the Administration has proposed only $6.9 billion in budget authority in four special revenue sharing funds—for urban community development, education, law enforcement, and manpower training. It should be noted, however, that the Administration is also considering two additional proposals for special revenue sharing in social services (a $3.12 billion package) and health (with a price tag of $523.5 million).[16]

4. *General Revenue Sharing*. The basic idea behind general revenue sharing is "to strengthen the fiscal capabilities of State and local governments by requiring the National Government to share with them a designated portion of the Federal personal income tax revenue on a *no expenditure* strings basis."[17] On October 20, 1972, President Nixon at the signing of the bill in Philadephia spoke of his dislike for the categorical programs, by saying that "under this program, instead of spending so much time trying to please distant bureaucrats in Washington so the money will keep coming in, state and local officials can concentrate on pleasing the people, so the money can do more good States and cities will not have to worry about filling complicated plans, filling out endless forms, meeting lots of administrative regulations or submitting to all sorts of bureaucratic controls. When we say no strings we mean no strings."

(16) For a detailed analysis, see John C.H. Oh,"Policy Analysis, of the Social Service Special Revenue Sharing Package" (Washington, D.C.: HEN-SRS, February 1973), pp. 18.

(17) ACIR, *Revenue Sharing—An Idea Whose Time Has Come*, M-54, December 1970 (Washington, D.C.: GPO, 1970), p. 2.

Although the idea of general revenue sharing has been talked about by people like Walter Heller[18] for sometime in the past, it was officially proposed by President Nixon in his State of the Union Message in January, 1971. It must be also mentioned that it was that unique circumstance of 1972 Presidential election that made it a reality because the interested parties—such as the leading intellectuals (like Heller), the Democrats (like O'Brien and Mills), the Republicans (like Rockfeller and Nixon), the State and local officials (like Rockfeller, Lindsay, Carter, Mandel, Massell and Landrieu), and the public interest groups (like the National League of Cities and the Council of State Governments)—were able to work together in pushing it through reluctant Congress.

Under the Act, the first year outlay would total some $5.3 bililon, with roughly one-third going to State governments and the rest to some 38,500 local communities— counties, cities and towns. Payments to each unit of governments are determined by a mathematical formula based on the figures: population, aggregate income, per capita income, adjusted taxes and intergovernmental transfers of revenue. Hence, individual community figures vary widely with geographical location, economic status, population and local tax efforts. For fiscal 1974, ending June 30, 1974, the payment will be about $6.05 billion. Thus, revenue sharing would inject some much-needed flexibility into the existing pattern of intergovernmental fiscal transfers, by giving States and localities large blocks of "no strings" Federal aid to spend as they see fit.

Although it is too early to tell for certain how well this general revenue sharing program is working, a recent study conducted by Senator Muskie's Subcommittee reveals that it is not being utilized responsively by local communities.[19] In response to the question, "How do you plan to use the assistance your community will receive under the new revenue program?," the vast majority of cities said that they will spend in the following areas: capital improvements, public safety, and salary adjustments. Some communities also intended to spend for various forms of tax relief and environmental improvement. Only a small minority indicated that they will spend for social services for the poor or elderly or other forms of recurring expenditures.[20] It should be emphasized that this survey is not conclusive for it is based on the answers received from little over 700 small and medium sized cities with populations ranging from 10,000 to 100,000 (out of 2,200 questionnaires sent out) and 71 large cities with more than 100,000 people (out of 153 questionnaires sent out). Its conclusion was also drawn before the Administration indicated that the revenue sharing payments are to be to replace Federal money out back from social programs as announced in the fiscal 1974 budget. However, as some critics point out, it is fair to say that the vast majority of communities intend to spend for services and tax cuts favorable to middle income groups.[21] This should not surprise anyone, for as one critic said, local governments have been "notorious for their insensitivity to the needs and aspirations of blacks and the poor."[22] In spite of these allegations and challenges, the idea of Federal revenue sharing is now a reality and enjoys wide public

(18) Walter W. Heller, *New Dimensions of Political Economy*(Cambridge: Harvard University Press, 1966).
(19) Senate Subcommittee on Intergovernmental Relations, *Preliminary Results of November 1972, Survey of Federal Grants* (March 1, 1973).
(20) *Ibid.*, p. 7.
(21) Joseph Kraft, "Who Shares in Revenue Sharing?" *The Washington Post*, February 15, 1973, p.21
(22) Remarks of Vernon E. Jordan, Jr., Excutive Director, National Urban League, as quoted in William Raspberry, "Sharing That Revenue," *The Washington Post*, March 19, 1973, p. 21.

support. Gallup poll last year reported that some 71 per cent of the American people favored it. Officials of State and local governments give top priority to it, as in the case of the leaders of both major political parties. There is also a strong Congressional backing behind the basic idea. Such an enthusiastic support, however, disappears if the advent of general revenue sharing means cut back in the Federal categorical programs. In fact, most city and State officials said in recent weeks that block grants or special revenue sharing (as well as that of general revenue sharing) should not be used as an excuse to lower the dollar amounts of Federal money going to the States and cities.(23)

Conclusion

Whether one agrees with it or not, the current move toward special revenue sharing (as well as that of general revenue sharing) is based on a philosophical assumption that the States and localities know better the nature of social problems in their areas and can(and will) better solve those problems than the Federal Government, if they are given the money needed to do the job with minimum Federal interference. It also assumes that the Federal Government has the most efficient revenue collection mechanism, but the Federal administration of grants-in-aid programs has not been cumbersome but in many cases counter-productive. President Nixon, in proposing revenue sharing on February 4, 1971, stated that "our ultimate goal must always be to locate power at that place—public or private—Federal or local— where it can be used most responsibly with the greatest efficiency, and most responsively with the greatest effectiveness."(24) He found that power base in the local and State governments.

There is no historical evidence that substantiates such a broad generalization concerning the efficiency and responsiveness of State and local govrenments. Returning the Federal money and the decision-making authortity to the States and localities now cannot suddenly make them more responsible, save money and improve their performance. These governments must be given the opportunity to build their capabilities in providing better services to the people in their communities, for the vast majority of them have not established yet their administrative infrastructures and rational methods of dealing with problem solving. If they are to fulfill the expectations of New Federalism, they must be able to set up and prioritize their own policies and programs on a more rational basis without being constantly subjected to the irresponsible dominant power structures and local political pressures. Above all, they must be responsive to the needs of the people—whether they are powerful or powerless—or the rich or the poor—and guarantee their constitutional rights and well-being. We must recognize that it was this lack of responsiveness of the State and local governments to the needs of the powerless and the poor that brought power to Washington in the first place. Another important fact that should be understood is that many of our social problems—such as pollution, poverty, unemployment, transportation, education and crime—are no longer purely local or State problems to be dealt with by each unit of governments separately or independently. They are national in scope and require national solution.

We should not, however, foreclose any of these

(23) See "Six Governors View Nixon Budget," *Congressional Record-Senate*, Vol. 119, No. 37(March 8, 1973), 93rd Congress, 1st S., pp. S4222-4237; and "Mayors Plead for Social Programs," *Congressional Record-Senate*, Vol. 119, No. 27 (February 21, 1973), 93rd Congress, 1st S., pp. S3057-3071.

(24) *H R. Doc. 92-44* (92nd Congress, 1st Session), p.9.

alternatives and/or options for the simple reason that social problems are diverse in origin and require varying techniques in their resolvement. We should be therefore prepared to experiment through a number of demonstration projects as well as partial conversion of the categorical programs instead of being stuck with the idea of either changing the entire Federal program activity into either one of the four options mentioned, or nothing else.

As a matter of fact, in deciding the proper role of Federal Government— and in selecting alternatives to be pursued in obtaining Federal objectives—it is essential to reexamine many of the assumptions made about the "failures" as well as the shortcomings of the State and local governments. Other substantive issues that require critical attention are: 1) the constitutional tradition of this country; 2) the range of responsibibities which the Federal Government should assume in meeting individual needs, societal needs, national needs, States' needs, and/or local needs; 3) the capacity and capability of Federal Government in problem solving as compared to that of the State and local governments (as well as that of non-public bodies); 4) the methods used in resolving problems encountered; 5) the present problems that will require differing solutions(and the methods to be used) in the future; 6) the proper role of the States in relation to their political subdivisions; and 7) the proper relationships between and among Federal, State, and local governments.

For example, in dealing with the issue of the proper Federal-State-local relationships, questions such as these should be asked:

a. Should there be increased centralization of functions as the national level? Or decentralization?
b. Should decentralization be carried primarily to the State level? Or to the local level?
c. Should the States simply serve as an intermediary between Federal Government and local governments, as if they are administrative districts of the Federal Government? In such cases should the States forfeit their role as major policy-makers on their own?
d. What should be the relationship between the Federal central headquarters and the Regional Councils? Or with the Regional Offices?
e. What would be the most desirable and feasible ways to administer grant-in-aid programs? (i.e. in terms of economy, efficiency, effectiveness, or responsivenes?)
f. In view of the above, should the present grant-in-aid programs be converted into federalization strategy, block grant strategy, special revenue sharing strategy, "income" strategy or "mixed" strategy? If so, when? And how?

Only after careful analysis of such issues, can we rationalize Federal decision choices in our ever-changing, dynamic system of American federalism.