

# THE GOVERNMENT WE DESERVE

Responsive Democracy  
and Changing  
Expectations

THE URBAN INSTITUTE PRESS  
Washington, D.C.

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**THE URBAN INSTITUTE PRESS**

2100 M Street, N.W.  
Washington, D.C. 20037

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Library of Congress Cataloging in Publication Data

The Government We Deserve: Responsive Democracy and Changing Expectations/  
[C. Eugene Steuerle . . . et al.].

Includes bibliographical references and index.

1. United States—Politics and Government—1993–2. Democracy—United States. I. Steuerle, C. Eugene, 1946–.

JK271.G723

1998

98-6761

320.973'09'049—DC21

CIP

ISBN 0-87766-676-8 (paper, alk. paper)

ISBN 0-87766-675-X (cloth, alk. paper)

Printed in the United States of America.

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## WHO DOES WHAT? THE CHANGING SHAPE OF U.S. FEDERALISM

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Surrounding many of the debates about the public sector in this volume has been a secondary-level debate about which government level should be involved in performing which functions.<sup>1</sup> We have not taken strong positions about this issue in this volume. At the same time, we believe that much of what is written about it is confusing and misleading. As an empirical matter, both centralization and decentralization have been occurring together. There is also no a priori basis for knowing which government level is best without examining the particulars of each policy or programmatic issue that is involved. This appendix is offered to try to clarify some aspects of this parallel debate on the organization of government activity across jurisdictions.

What brought this issue back into the spotlight was the overwhelming congressional vote on welfare reform in 1996. The new welfare system—which replaced a joint federal-state entitlement for low-income single mothers and their children with fixed block grants to the states—has been hailed by many as a defining moment in the American people’s decision to “finally” reverse a long-term trend toward greater federal power. This distorts a much more complex historical record.

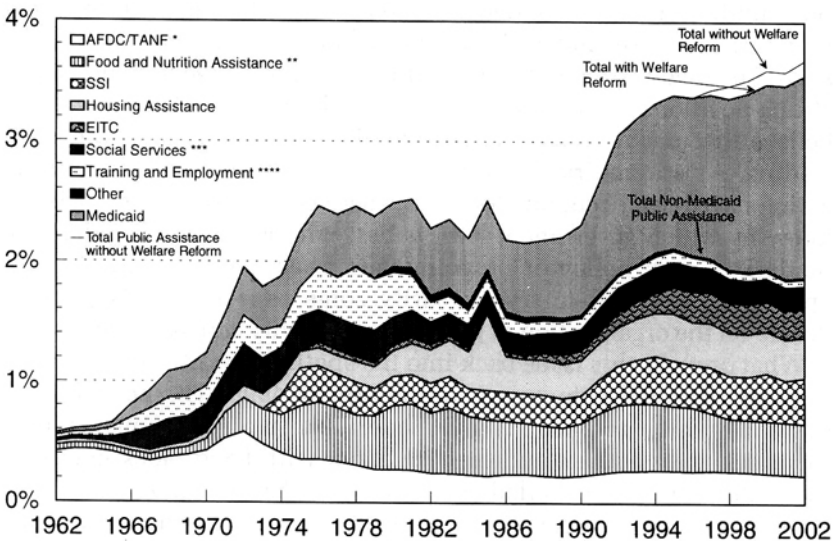
First, as historian Mary Furner has put it, “prior to the current devolution, there have been five major cycles of revulsion against government, each of them related to an earlier period of government growth.”<sup>2</sup> While the country was still very young, for example, Jeffersonian Republicans were already crusading against Hamilton’s policies of centralization and promotion of economic development.<sup>3</sup> Jack Donahue calls the issue “America’s Endless Argument.”<sup>4</sup>

Second, the era of easy money following World War II, combined with the demands of the rights revolution of the 1950s and 1960s, did stimulate considerable centralization of government at the national level (more below on what is happening at the state level). However,

most scholars agree there has been no decisive tilt either toward or away from national centralization since the late 1970s.<sup>5</sup>

Third, the degree of devolution embodied in the 1996 welfare reform legislation—the piece of evidence most cited—is extremely small and contrasts sharply with the overall trend in federal assistance to the poor and near-poor (see figure A.1). Federal assistance for low-income families also includes, for instance, food and nutrition assistance (mainly food stamps), Supplemental Security Income (SSI), housing

Figure A.1 FEDERAL PUBLIC ASSISTANCE SPENDING AS PERCENTAGE OF GDP (Including estimated impacts of welfare reform)



Source: Based on historical data from the Budget of the U.S. Government, Fiscal Year 1997, and unpublished projections from the Congressional Budget Office. The 1985 spike in spending was due to a temporary increase in Housing Assistance for renovation and modernization.

\*Before 1997 this includes AFDC, AFDC child care, AFDC job training (JOBS), Emergency Assistance, net Child Support Enforcement, and the Child Care and Development Block Grant. From 1997 onwards, this includes TANF, the new child care block grant, and net Child Support Enforcement.

\*\*Includes Food Stamps, Child Nutrition, and the Supplemental Nutrition Program for Women, Infants, and Children.

\*\*\*Includes Social Services Block Grant, Foster Care and Adoption Assistance, Children and Family Services Programs, Aging Services Program, and the National Service Initiative.

\*\*\*\*Not including AFDC job training (JOBS).

assistance, and the Earned Income Tax Credit (EITC). These alone at the turn of this century will account for about 1.5 percent of GDP, compared with total federal expenditures on what is typically thought of as welfare—AFDC (now Temporary Assistance for Needy Families, or TANF)—of only about 0.2 percent.

Fourth, the ultimate form of devolution is not from one level of government to another, but to the individual. Thus, if the federal government were to take its largest program, Social Security, and pass its checks through state and local governments for clearance and for some further form of regulation, individuals would hardly feel as if they were given more control over their own lives and that power somehow had “devolved” to them. Thus, devolution in the true sense of the word sometimes means bypassing, not involving, intermediate levels of government.

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### ***INEVITABLE BUT HEALTHY TENSIONS***

Where the country happens to be on the centralization-decentralization continuum at any time is the result of tensions that are unavoidable in any federal system: equality versus diversity and uniformity versus experimentation. The pendulum swings from period to period in response to how these tensions—and the possibilities of arriving at some balance—play out.

#### **Equality versus Diversity**

One principle of equity demands equal treatment of equals. This principle pervades government policy, but it is so intuitively obvious that it is often left unstated. The U.S. Declaration of Independence proclaimed equality of God-given rights as a founding standard for the new nation. In the modern state, conservatives and liberals alike demand as a matter of fairness and justice that if you and I are in equal circumstances, we should pay the same tax and receive the same benefits from government programs. Anyone who would deny the importance of equality under the law in our society should recall that the stimulus for many reforms in civil rights, tax and expenditure policy, and other areas has been the public outcry when the principle of equal treatment is violated—the sense that equals are not being treated fairly under the law.

But defining equality in the abstract is much more straightforward than putting it into practice. To provide truly equal national treatment of individuals in need, for instance, we must determine who starts out with equal need—a task fraught with practical measurement and normative judgments. The Appalachian poor may have needs far different from the poor living in the Watts area of Los Angeles, but who is to say which needs are greater? Policymakers sometimes revert to income as a way of measuring who is “equal,” but income can be misleadingly narrow. Environment, family, individual capabilities, and many other factors can render individuals more or less “equal.”

Equality also fights with diversity, another principle that is highly valued in U.S. society. Diversity allows freedom of choice among individuals and among public officials in developing government responses to perceived societal needs. It captures the freedom Americans have to vote with their feet and move to jurisdictions that have the government, the climate, the whatever-it-is they want.<sup>6</sup> Diversity also captures the freedom state and local officials have to exercise authority in and make policy choices for their jurisdictions. In the recent federalism debate, governors demanded more freedom from national control, and the Supreme Court—in decisions ranging from environmental cleanup to the regulation of guns—put clearer controls on the national government’s power to restrict diversity among states. The problem is that greater diversity is inextricably intertwined with inequalities—as regulations differ, tax rates differ, benefit generosity differs, and simple differences in program administration cause potential gaps and overlaps between jurisdictions.

### **Uniformity versus Experimentation**

When the “best” way to produce a good or deliver a service is known, the most efficient approach, other things equal, is typically to let one entity—monopolist, monarch, dictator, central government—take charge of producing or delivering on a mass scale. The more separate producers involved, the higher the overhead costs and the greater the chance of introducing inefficiencies by using nonuniform methods. In the real world, of course, other things are not always equal. The uniform producer may exploit her position—pay herself too much, keep on too many employees, fail to take the risks inherent in bringing about change. Perhaps as important, having one producer of uniform products prevents the discovery and use of talents that could potentially enrich the whole production process. In the public arena, for example, few would deny that the mindset that Washington, D.C.,

engenders can suffocate the innovation and creativity that motivate citizens to participate, improve themselves, and respond to the needs of their communities.

Advances, in other words, require experimentation—taking risks and doing things differently, from others and from the way one did things before. In the private sector, “competition” is sometimes used to connote the conditions under which experimentation can take place. The counterpart to private competition is public sector competition—within itself, not just as a monopolist competing within the private sector. The adaptability and continuous improvement required of organizations in today’s world will not happen unless public entities are encouraged to innovate and experiment. But experimentation in public policy can be messy and is often wasteful. Recent efforts to provide “managed competition,” for instance, attempt to encourage competition and accountability for services among public, private, and nonprofit organizations. But who should decide on whom or what we experiment? The uniformity standard prevents someone from failing to get a benefit just because he or she happens to be on the wrong side of the border (or even the wrong side of a street, as in the case of enterprise zones, one of American government’s recent experiments).

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### ***THE CURRENT FEDERAL BALANCE***

Perhaps surprisingly in light of the vehemence of today’s federalism debate, there has been little controversy over the appropriate location of most government functions. The vast majority of federalism choices are mainly pragmatic—made to resolve the equality/diversity and uniformity/experimentation dilemmas endemic in a federal system. That is as it should be. Taking a simple stand for or against centralization, for example, cannot itself help us avoid bad policies that should not belong at any level of government. And as for which level of government is the “best” to carry out a specific policy, that depends on the goals of that policy and the relative efficiency and responsiveness with which different levels of government can address those goals.

#### **National Government**

Certain forces for centralized approaches have been growing stronger even as we convert from an industrial to an information society that promotes individualism and choice. First, the nationalization and

internationalization of news, comment, and entertainment force the public to think about problems on a wider geographic scale—and turn to national government, or even to internationally decided treaties and agreements, for solutions. Second, increasing numbers of products and services are being produced, traded, and transported across geographic boundaries, guaranteeing that the national government's authority to regulate interstate commerce will cover more and more commercial activities. New concerns have also arisen over the proper taxation and regulation of international companies that increasingly conduct business around the world.

But another more fundamental trend has pushed centralization in important areas of our lives. "No state shall . . . deprive any person of life, liberty, or property without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws." These powerful 14th Amendment words have been the constitutional vehicle for the progressive nationalization of social and economic protections.

And the support for centralization does not respect traditional party lines. Business executives, who are more likely to vote Republican than is the population generally, often prefer uniform national policies to separate policies in 50 states and in hundreds of local jurisdictions. When asked how the tax system could be simplified to lower the costs of compliance, for example, chief corporate tax officers most commonly single out more uniformity among state tax systems and between the state and federal systems.<sup>7</sup> Multistate businesses that provide health benefits to employees also lobby unceasingly to ensure that any health system reform maintains a federal rule that exempts them from state regulatory authority. As a particularly dramatic example, even gun lobbyists (not a group normally enamored of federal control) want the Second Amendment to the Constitution (the right to carry arms) treated as a national impediment to state gun-control laws.

Most Americans would consider it unthinkable to revert to a time when racial and gender discrimination or basic environmental standards and worker safety protections were left up to local option. The recent public revulsion over the wide variation in waiting times for a liver transplant (depending on how close one happens to live to a major hospital center) is only a particularly dramatic illustration of how subordinate the place of geography is to current American expectations of equitable access. Donahue suggests that many national interests and national values simply cannot be addressed in an environment where states compete to shift those costs to other states.<sup>8</sup>



Public attitudes toward the entitlement programs that benefit the large middle class provide further evidence that Americans may talk a good game about reducing government and returning power to the states but, when their own assets are involved, often change their story. These middle-class entitlements include the largest subsidies in the federal expenditure and tax systems: Social Security, Medicare, and tax exclusions or deductions for pensions, health insurance, housing, homeowners' expenses, and charitable contributions. Although the overall size and efficiency of at least some of these programs are being fiercely debated—the programs can be both large and poorly targeted—there is no talk about converting them to block grants turned over to state or local discretion.

### **States and Localities**

Even while national responsibility has increased in many areas, states and localities have retained, and often increased, their powers over the core functions of civilized society. Fire and police protection, primary and secondary education, land use and zoning, and local and regional transportation are important examples. Economic development is dominated by local choices. States and localities control most choices on the provision of public health and such public amenities as parks, museums, and libraries. In some other areas, states share the field. For example, states spend significant amounts on higher education through state universities and community colleges. Public-sector employment remains primarily (and increasingly in recent decades) a state and local government phenomenon. Only during the crises of the Depression and World War II did national government employment exceed state and local employment. Indeed, almost since the Korean War (see figure 4.2) federal civilian employment has been declining as a percentage of total employment, even though total public sector employment has maintained a steady share of total employment.

State and local revenues have also grown relative to the economy, while national revenues have remained relatively flat. At least in terms of revenues, decentralization has been going on since the end of World War II. State and local revenues increased from 7 percent of GDP in 1952 to 15 percent in 1994, for example, while federal revenue fell slightly from 20.0 percent of GDP in 1952 to 19.7 percent in 1994 (see figure 4.4). The tremendous growth of national domestic policy expenditures, financed by a switch at the national level from defense to domestic spending, masks the extent to which the states have relied

upon increased revenues to expand domestic programs (see figure 4.3).

It is also worthy of note that, even as states have increased their domestic spending relative to the central government, they have been *centralizing subnational public activities*. In 1902, state revenues were 18 percent of combined state and local revenues. By 1927, this figure had grown to 27 percent, by 1950 to 52 percent, and by 1994 to 60 percent.<sup>9</sup> Accompanying this centralization of financing—at a level exceeding any federal usurpation of state and local financing—has been the turning over to state governments of many local functions. Perhaps the most significant manifestation in recent years has been state-level involvement in local public schools, a control often following from state court decisions requiring greater equalization of financial resources among different communities in the states. Here the equality-versus-diversity debate is moving toward equality of financing, with uncertain results as to equality of outcome.

### **The Contested Area**

In today's debate over the appropriate federal balance, the most contested functions mainly fall into a specific category. Fundamentally, functions nobody wants to claim have been shared ever since the New Deal. These are primarily the social welfare functions of providing for the health and welfare of the poor. In an era when the public demanded federal deficit reduction, the national government took the opportunity to devolve to the states functions with no powerful constituency. In Martha Derthick's words, "With rhetorical homage to the states, restored sovereignty, and the collaboration of Republican governors, Congress can turn back to the states functions that have become political and financial liabilities."<sup>10</sup>

That the focus is on difficult-to-manage and less popular programs rather than on the evils of centralization per se is confirmed by the terms of the 1995–1996 devolution debate and resulting legislation. Aid to Families with Dependent Children (AFDC) was the main program abolished by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. Much larger and more uniform (read centralized) benefits for low-income Americans are provided under the EITC, food stamps, and SSI than under AFDC. All of these have political constituents that extend beyond just the very poor, and all were largely untouched in 1996 (except for the targeting of legal immigrants under the SSI and food stamp reforms). Even when changed, the focus was on national design, not devolution to states. The sound and fury

of the debate also obscured the prior devolution of AFDC, which had been accelerating for several years as the states gained increasing discretion and autonomy (under federal waivers) to set benefit levels, control state appropriations, and determine eligibility criteria.

The still-raging debate over Medicaid is more complex than the debate over welfare cash assistance, combining an interesting mix of antipathy to the welfare function, concern about spiraling health care costs, high political interest by the health care industry, and a desire to expand health insurance coverage, particularly of children. The continuing efforts to turn more Medicaid responsibility over to the states are driven in no small part by the federal desire to unload the burden of controlling these costs. Medicaid block grants to the states, for example, would leave up to them the difficult and unpopular tasks of controlling service utilization and payments to doctors, hospitals, and other suppliers of services. Yet several times in recent years, including 1997, the federal government expanded eligibility for Medicaid to higher income levels for children and increased the amount of funds that would be provided.

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## ***TOWARD THE FUTURE***

Two interjurisdictional approaches to social issues are worth watching for the future. First, financing and implementation may be split among jurisdictions according to their relative advantage in performing each function. Second, higher levels of government may increasingly emphasize setting minimum levels of benefits, while leaving further choices to lower levels of government.

### **Financing versus Implementation**

The tendency of states to take over greater shares of state and local financing in the twentieth century was in part a logical outcome of increased reliance upon taxes with broad bases that might more easily be administered over wider jurisdictional lines—income taxes, sales taxes, and so on. The states still return many of those finances to local jurisdictions, although not without strings. While the federal government's large domestic role is relatively new in our nation's history, some of its programs are likely to evolve in the same way. That is, the federal government often is a more efficient collector of taxes than it is an efficient administrator of programs.

Although not an intent of the legislation, the so-called *devolution of welfare responsibility in the former AFDC program has further federalized the financing function and reduced state and local financing participation.*<sup>11</sup> Why? Under the old law, for every additional dollar spent by states and localities, the federal government would usually chip in additional money itself. Under the new law, states and localities operate primarily under a fixed block grant, which means that any additional spending on their part comes entirely out of their own pockets. With stronger incentives to spend less, the financial responsibility for safety net spending has actually become increasingly centralized at the federal level. It was not diffused through block grants.

At the same time, these latest welfare reform efforts shift onto the states and localities even greater management and cost control functions. Now states are somewhat freer to experiment as to what to do with the federal money, how to encourage work, and so on. Meanwhile, the federal government has hardly given up all regulation of the money it spends. Many strings are still attached, such as work requirements, maximum stays on welfare, minimum state financial contributions, and much more.

While financing and administration or execution of programs might be separated in part, it is unlikely that they would ever be completely eliminated. General revenue sharing—block grants that could be spent on almost anything—came into existence only at the height of the Easy Financing Era during the Nixon administration and have never been reintroduced since their elimination during the Reagan administration. Why is there such reluctance to maintain more general revenue sharing? Raising taxes does not make politicians popular. It represents the cost side of government. Almost no generation of federal policymakers wants to raise taxes that state and local policymakers can spend. Ditto for state policymakers raising money that local authorities can spend at their whim. Governments, like other institutions, are going to regulate, at least in part, what they subsidize.

One way of viewing a separation of financing from implementation is in terms of hiring workers. Except for a very brief period of time in the Depression, states and localities have always dominated the federal government in terms of employment. Indeed, federal employment as a percentage of the total labor force has been in decline for a long period of time.

Following this line of thinking, it is less surprising that the federal government has proven inept at controlling the costs of health care. By tradition, the federal government has never done very well at hiring workers to provide benefits directly to individuals. Thus, the move to

devolve some health responsibilities away from the federal government is entirely consistent with the usual division of labor at different levels of government.

Thought of as a matter of employing service workers, a similar division of responsibilities seems to be taking place in poverty programs. The federal government seems to be taking on an increased share of total financing, but now states and localities are being given much greater authority to experiment on how to structure any assistance given. Putting work incentives into welfare programs is, for example, a labor-intensive effort that requires more service providers in state and local government, in private firms and nonprofit organizations receiving contracts, and among employers themselves. The goal, as usual, should be the pragmatic one of taking advantage of each sector's relative skills.

### **Setting Minimum Benefit Levels**

In considering issues of federalism, we have tried to point out the inevitable conflict between the goals of equality and uniformity, on the one hand, and diversity and experimentation, on the other. The requirement is to try to seek a balance. Complete equality and uniformity in federal (or state or local) programs often stifles individual expression and efficient efforts to make something work even better. Complete emphasis on diversity and experimentation, on the other hand, tends to deny a basic reality of democracy: the demand on a central government to try to create greater equality of opportunity and at least some minimum level of well-being for all groups in society.

If the nation is in agreement that federal control of welfare is not working and that experimentation is necessary, for instance, it is still possible to enact laws that provide a minimum level of uniformity and equality, but then allow experimentation above that level. The very provision of federal grants that must be spent to help the poor and the more universal provision of work subsidies through the Earned Income Tax Credit help establish that base above which experimentation is to take place. A similar balance must be sought on a host of other issues. To mention only two, minimum levels of medical care for all citizens must be balanced with the requirement for some market incentives to control costs; minimum levels of educational opportunity must be balanced with some ability for parents and localities to take initiatives. At the same time, experimentation is most valuable if it is well tested.

Health care is a prime example of a policy in flux, in no small part because of its impact on the fiscal situation of federal, as well as state and local, governments. While the federal government is unlikely to abandon its strong presence in financing, it has made a number of gestures toward turning over to states and localities greater responsibility for costs above some minimum. Both President Clinton and a number of Republicans, for instance, recommended that federal Medicaid payments to states be based upon a fixed amount per poor person.

Paul Peterson has highlighted the distinction between redistribution (sharing the pie) and infrastructure development (making the shared pie bigger).<sup>12</sup> Since redistribution involves taking from the “haves” and giving to the “have nots,” it is often best done at a level of government with a wide territorial reach that is also free of immediate economic competition from similar jurisdictions. It is possible to exaggerate the fear of a “race to the bottom,” meaning that no state would want to compete with nearby jurisdictions by charging its citizens higher taxes to support a larger social welfare function. Nonetheless, when the federal government sets a minimum level of help or fixed payment per eligible person, it can effectively determine a “bottom” below which no state could fall.

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## CONCLUSION

The optimal jurisdiction of any government function has nothing inherently to do with a liberal-conservative division or with the big-government/small-government debate. Turning over functions to states or localities can increase or reduce individual liberty, expand or shrink the size of government and bureaucracy, and lead to more or less efficient and equitable structures. Some patterns also change over time as citizens become more mobile or economic and family life changes. Beyond constitutional restrictions, the criterion should be the very pragmatic one of which level of government does which function best, or which level is best able to take on the problem at hand.

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## Notes

1. Note that many of the forces driving the reordering of federalism play out as well at a managerial and administrative level. New efforts to “reinvent” government, develop

performance contracts for agencies, and generate more accountability and “customer service” from government workers, for instance, represent parallel responses to the possibilities and problems of the modern state. Such managerial reforms, examined in depth in other works, share many common features with the restructuring of the federal system and of the design of social insurance. David Osborne and Peter Plastrik, *Banishing Bureaucracy: The Five Strategies for Reinventing Government*, Boston, MA: Addison Wesley Longman, 1997; Donald F. Kettl, “The Global Revolution in Public Management: Driving Themes, Missing Links,” *Journal of Public Policy and Management*, 16 (Summer 1997), pp. 446–462.

2. Mary O. Furner, December 1996, “Antistatistism and Government Downsizing in Perspective,” in *The Future of the Public Sector*, brief no. 9, December 1996, Washington, DC: Urban Institute. Also, Strauss and Howe point to the cycle of politics in their lively book on what the past might tell us about the future. They note that periods like the present—those of pessimism about the long-term future—have happened before. Later “turnings,” in their language, occur when new value regimes replace the old civic order, then when a new civic order implants in an upbeat period of strengthening institutions. See William Strauss and Neil Howe, *The Fourth Turning: An American Prophecy* (1997), Broadway Books, New York.
3. See Mary Furner, Future of Public Sector briefs.
4. John D. Donahue, *Disunited States*, New York: Basic Books, 1997.
5. See John Shannon, May 20, 1996, “Middle-of-the-Road Federalism,” *State Tax Notes* (pp. 1540–2; and *Two Hundred Years of American Federalism: A Quick Sketch*, Urban Institute Handout, September 1990.
6. For more on this topic, see Charles Tiebout, “A Pure Theory of Local Expenditures,” *Journal of Political Economy* Vol. 64 (1956), pp. 416–424.
7. Results from a survey of large corporations on the cost of income tax compliance conducted in 1992. See Joel Slemrod and Marsha Blumenthal, 1993, “The Income Tax Compliance Cost of Big Business,” The Office of Tax Policy Research Working Paper Series, The School of Business Administration, University of Michigan.
8. John D. Donahue, op. cit.
9. Since then the trend has leveled off.
10. Martha Derthick, *The Future of the Public Sector Brief #2, “Whither Federalism,”* June 1996, Washington, DC: The Urban Institute.
11. Gordon Mermin and C. Eugene Steuerle, “The Impact of TANF on State Budgets,” in *New Federalism: Issues and Options for States*, series A, No. A-18, November 1997, Washington, DC: Urban Institute.
12. Paul E. Peterson, “When to Devolve,” in *The Future of the Public Sector*, brief no. 6, October 1996, Washington, DC: Urban Institute.