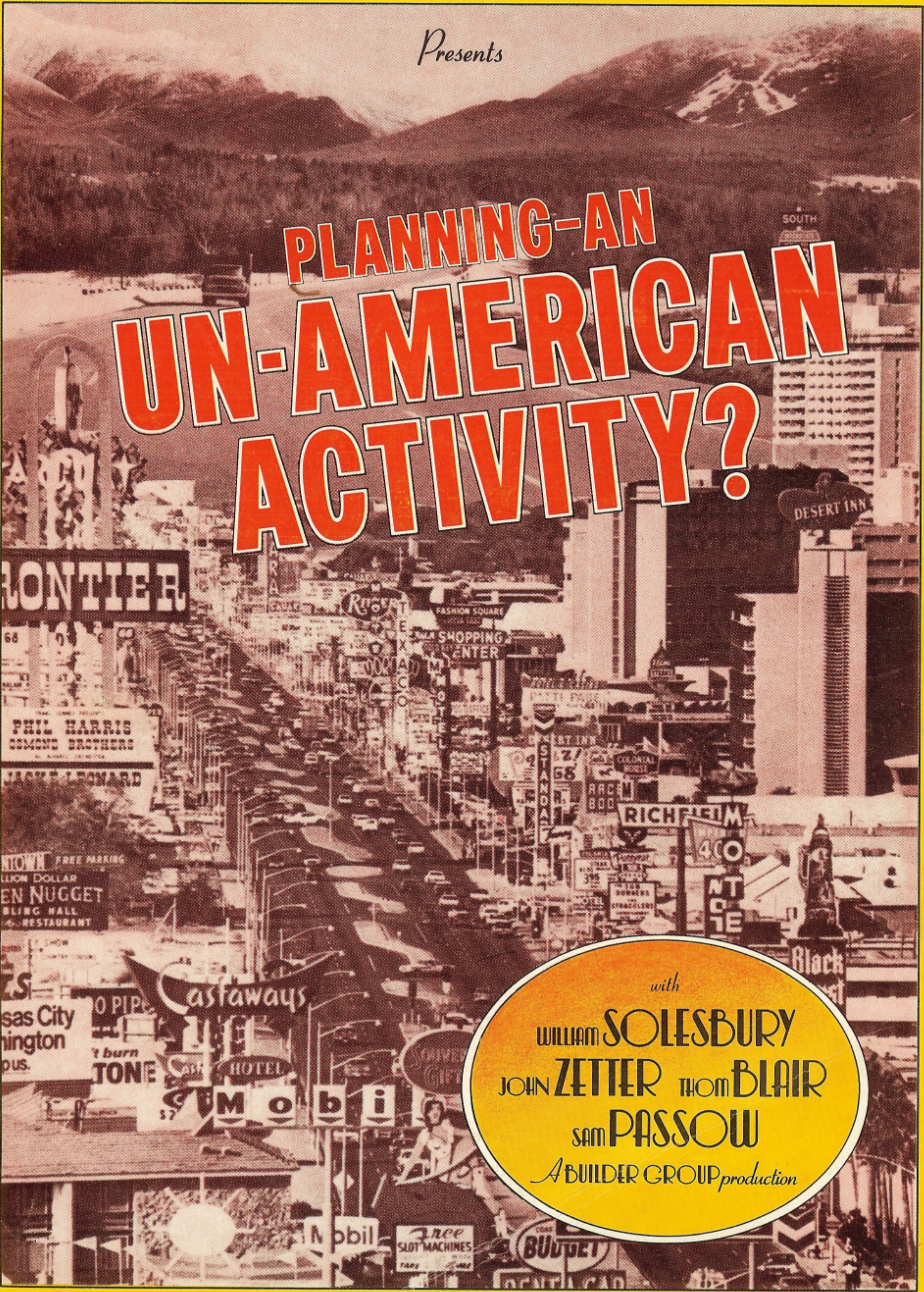
BUILT ENVIRONMENT

April 1974 30p



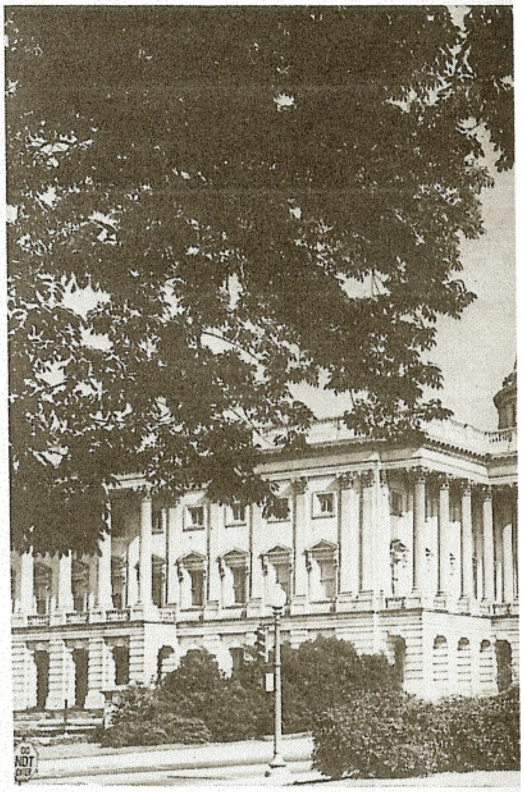
Decentralisation: an American dream?

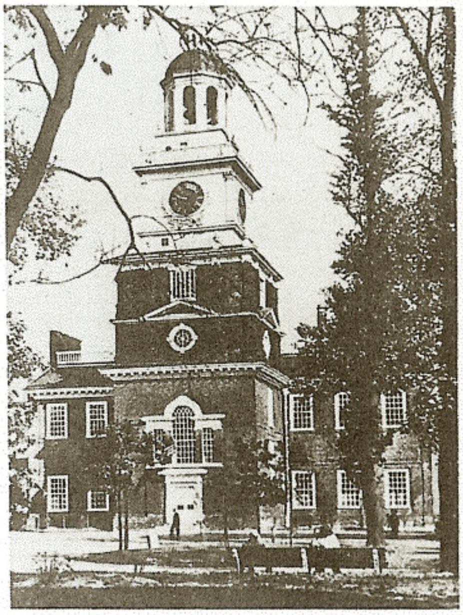
Sam Passow gives an alternative viewpoint on the role of the state in the American administrative system. Revenue sharing, he says, is a symptom of the frontier mentality which discourages proper national government.

The United States' federal system of government has often been characterised as an experiment in democracy. The federal government in Washington must work in concert with the 50 states in trying to enhance the general welfare of the nation by providing maximum opportunity for all while preserving individual liberty.
This is by no means an easy task.
"The American internal argument is a protracted debate on the rights of the individual citizen, on the sovereignty of the individual state, on the relationship between the states and the national government of the United States. Before, during and after the Revolution it was easy to agree that some type of national government was required. It was far less easy to agree as to its scope."[1]
In 1787, the division centred around two types of individuals. The first was an agrarian, more radical, American, who after driving British overlords from his land wasn't prepared to live under a newly substituted American one. He had a passionate distaste for anything big, ie big business, big churches and big political organisations. He emphasised the autonomy of the states, with decentralisation his ultimate goal.[2]
His counterpart was a more mercantile and conservative American, who favoured a strong centralised government and strong institutions to which, in some respects, the states would be distinctly subordinate.[3]
"Motives were mixed on both sides. Each could claim justification from the lessons of the past, current constitutional theory and sheer common sense. Each could accuse the other of stupidity and self-interest. The result was a confused but abiding division in American constitutionalism, still evident in the twentieth century."[4]
After arguing for two years in Independence Hall in Philadelphia, what emerged in 1789 was a compromise system of goverment.
The national legislature (the Congress of the United States) would have the power to "lay and collect taxes, duties, imports and excises; regulate commerce with foreign nations and between states; coin money and regulate the value of foreign coin; fix the standards of weights and measures; establish post offices; make war; raise an army and navy."[5]
The state governments were given control of almost everything else. According to Article Ten of the Bill of Rights, "powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."[6]
This became known as the "states rights amendment," and was based on the concept that government action should be initiated at the "grass roots".
Through the interpretation of this amendment, planning in the United States has always been viewed as a state or local function. It has also led to a form of organised chaos.
Within the 50 states, there are more than 80 000 units of local government. About 21 000 units juggle the affairs of the major metropolitan areas that incorporate 70 per cent of the population. That averages 91 governments for the typical metropolitan area.
Only about 20 of the nation's 247 metropolitan areas are managed by fewer than 10 local governments. The Chicago area embraces 1113; Philadelphia and the surrounding Delaware Valley, 871; metropolitan New York, 551. The average metropolitan county provides work for 350 elected officials.
Units of local government have sprung up in random and overlapping profusion, meant to exclude or evade other governing bodies.
Two-thirds of municipalities and townships in the US have populations of fewer than 5000. Among 5000 metropolitan school districts, about one-quarter educate fewer than 300 pupils and about one-third operate no more than a single school.
All but 200 of the 5000 metropolitan municipalities govern less than 25 square miles, the majority of those encompassing less than two square miles.[7]
To exercise "control" over these local governments, the ordinary citizen must wade through dozens of nonentities.
Most local governments can neither attract nor afford expertise in administration.

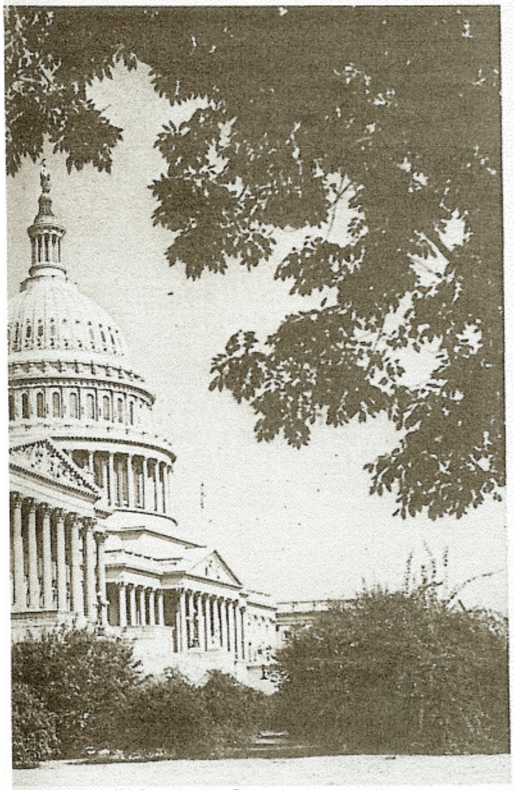
The aim of revenue sharing

To compound this catastrophic situation, President Nixon signed into law the "State and Local Fiscal Assistance Act" in October 1972—in other words, revenue sharing.
The basic idea behind 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 government income tax, with no control over how the states use the money.
In establishing this programme, the Nixon administration reaffirms the traditional American belief in the virtues of "grass roots" government, that underpins any effort to strengthen the fiscal independence of states and local governments.
This preference for decentralised government reflects the President's philosophy that the national government lacks the perspective to heal all the nation's domestic ills. More importantly, he maintains that the great strength of decentralised government is the flexibility that stimulates individual response to diverse local conditions and needs.


The Capitol, Washington: "where the directio


Independence Hall, Philadelphia: where the constitution was made and the argument began

The general concept of revenue sharing goes back to 1805 when President Thomas Jefferson recommended that federal revenue be used for a "just repartition . . . among the States . . . applied . . . to rivers, canals, roads, manufacturers, education, and other great objects within each State."[9] In 1836 congress actually voted a \$37.5 million distribution to the states, but no follow-up measures were ever enacted.
The concept of revenue sharing was not seriously discussed until the 1950s and then initially only in academic circles.
A general revenue sharing bill was first introduced in congress in 1958 by Congressman Melvin Laird of Wisconsin, who subsequently went on to become Nixon's secretary of defence and later his



comes from" the seat of government

A City Hall, (Philadelphia): where the money is wasted and the plans bungled

chief domestic affairs adviser.

By 1964, revenue sharing received both Republican and Democratic support. However, the major impetus for the idea is generally credited to Prof Walter Heller of the University of Minnesota, who shortly before he retired from President Lyndon B Johnson's Council of Economic Advisers devised a detailed plan that was further developed by Joseph A Pechman.

In 1968, President-elect Nixon established an intergovernmental fiscal relations task force headed by Richard P Nathan, and it was the report of this task force that became the basis of President Nixon's revenue sharing programme.[9]

Under the first year of the Nixon administration, the federal government had about 500 large and small conditional aid grants for state and local governments, collectively worth $25 billion a year. These grants were divided into categories of health, education, welfare, housing, transportation, etc, and were awarded on a need basis that was determined by the proposal forwarded by the state or local government. In almost each case, however, the state or local government had to match the amount of federal aid or contribute a proportional share.

Its financial base

Because of its vastly superior jurisdictional reach, congress has nearly monopolised the personal income tax. Today, the national government collects about 90 per cent of all personal income tax revenue, virtually cornering the revenue-producer that is most sensitive to economic growth. For every 1 per cent of growth in the nation's economy, individual income tax receipts automatically rise by about 1.5 per cent. In contrast, the revenue-producing capability of most state and local governments lag somewhat behind their economic growth.[10]

While the national government can count on automatic higher revenue yields to accommodate most of its growing expenditure needs, state and local policymakers are forced to take the politically risky course of imposing new taxes to meet the rising costs of an urbanised society.

Many states have gone in this direction, imposing their own levies on an already overburdened tax payer. In 1960, 19 states were imposing both general sales and personal income taxes. By 1970 the number rose to 33. Over the same time, the growth in state and local tax collections outpaced the national economic growth. State and local taxes rose from the equivalent of 7.3 per cent of the Gross National Product in 1960 to 8.6 per cent of the GNP by the close of the decade.

A study by the Advisory Commission on Intergovernmental Relations revealed that between 1950 and 1967 only 47 per cent of the increases in major state taxes—income, general and selective sales tax—was the result of economic growth, while 53 per cent resulted from legislative enactment.[11]

The two programmes

To counter this revenue-collecting imbalance, the Nixon administration has introduced both general and special revenue sharing programmes.

The general revenue sharing programme has four main characteristics: (1) An automatic distribution each year enabling state and local governments to plan on more than a yearly basis (a five-year plan was authorised); (2) a sharing of the money within the state according to a clearly defined formula (the ratio of one-third to the state and two-thirds to local units); (3) no strings on the use of the money and no matching requirements; (4) inclusion in the distribution of all general purpose local governments.

Appropriations were authorised as follows:

Calendar 1972: $5.3 billion
Calendar 1973: $2.9 billion (first 6 months)
Fiscal 1974: $6.0 billion
Fiscal 1975: $6.2 billion
Fiscal 1976: $6.3 billion
Calendar 1976: $3.3 billion (last 6 months)

Under the Act, state governments were not restricted in the use of their funds, but this was not true of the two-thirds passed on to local governments.

Local governments are restricted to "priority expenditures". These include ordinary and necessary maintenance and operating expenses for:

1—public safety (including: law enforcement, fire protection, and building code enforcement).
2—public transportation (including: transit systems, streets and roads).
3—environmental protection (including: sewage disposal, sanitation and pollution abatement).
4—health.
5—recreation.
6—libraries.
7—social services for the aged and poor.
8—financial administration.

It should be noted that there is an important omission in the use of local funds in the area of education, and that reporting requirements for local policymakers are minimal.

A national survey prepared for the US Treasury's Office of Revenue Sharing showed that 72 per cent of the local government units planned to spend their money for capital needs, including roads and buildings.[12]

The other part of the revenue sharing package is special revenue sharing. This programme was designed to replace and incorporate certain categorical grants — funds given for a specific purpose — previously used by the federal government to aid local governments.

In his January 29, 1973, message to congress, President Nixon announced the implementation of special revenue sharing in four areas: Urban community $2.3 billion; Education $2.5 billion; Manpower training $1.3 billion; Law enforcement $0.8 billion (amounts shown for fiscal 1973).

Since it was contended that these proposals would replace some 70 categorical grants presently expending over $10 billion, it would seem that some programmes and some states were certain to lose out relatively because the qualifications had been changed. The administration announced its budget cuts for education and urban development and replaced them with revenue sharing programmes called, respectively, the Better School Act and the Better Communities Act. The former would consolidate 32 categorical grants and the latter seven.

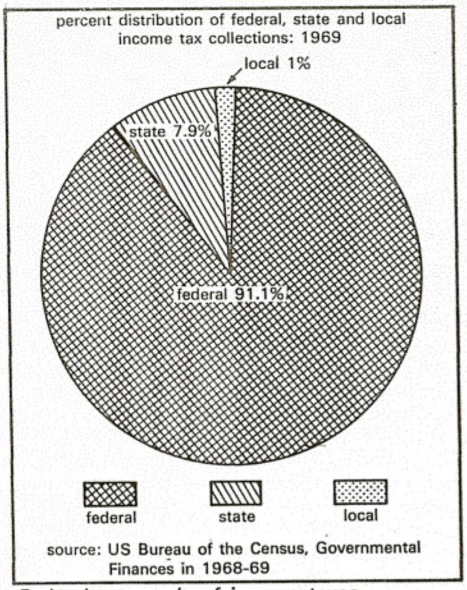
Revenue sharing is based on a three-factor formula: population, income *per capita* and tax effort (those local governments who have higher taxes receive more from revenue sharing). Thus many local governments who were once able to receive federal aid by applying for a specific categorical grant no longer qualify for such support. This mainly affects rural areas.

Pros and cons

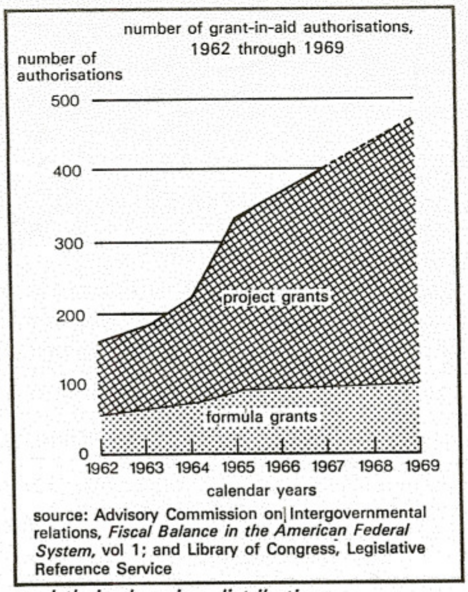
Those in favour of revenue sharing contend that it cuts down on the bureaucratic red tape that is normally associated with applying for and receiving categorical grants. They also see the programme as an alternative to taxes.

Those who oppose the plan cite inconsistent local levies as a reason for the unequal distribution of the federal treasury. Instead of changing the deplored tax system, they say, the administration is underwriting it indefinitely.

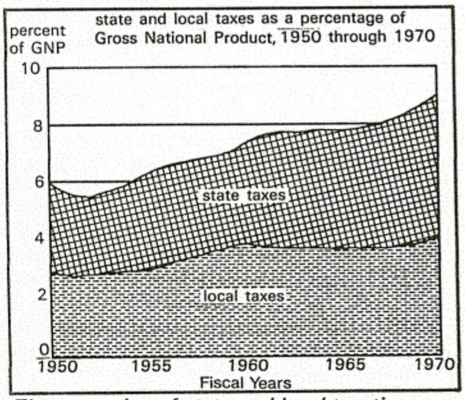
The president asserts his "trust" in the people and the local officeholders to reorder their affairs once they are given a little more money. His opponents see his



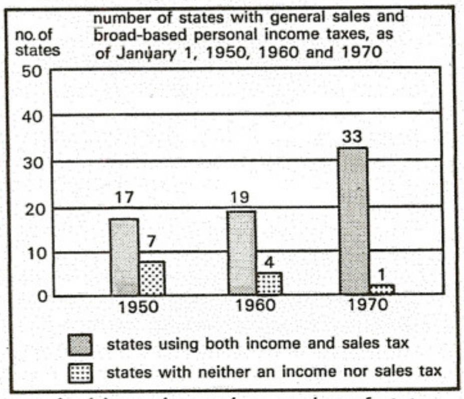
Federal monopoly of income taxes . . .



and their changing distribution



The expansion of state and local taxation . . .



required in an increasing number of states

plan as nothing more than a "quick fix". Regardless of whom you agree with, the central issue is the local tax structure, which remains in the hands of the local policymakers. The key question is whether or not the federal government is fairly distributing the money, if it is indeed basing it on the existing state and local tax structure.

To date, 10 states, including New Jersey, Connecticut and Texas, have refused to impose any income tax on their residents. Four large states, including Illinois and Michigan, tax only at a flat rate, to the obvious advantage of the wealthy. Of the remaining 36 states with nominally "progressive income taxes", only 19 bother to vary the rates on earnings beyond $10 000, and most of the other progressive scales don't go beyond $5000.

One consequence of this pattern of taxation is that citizens earning $15 000 or more, who pay 33 per cent of all taxes collected by the federal government, pay only 8 per cent of those collected by state and local governments.[13]

Added to the fact that the revenue power of the federal government increases more rapidly than the states, in the long run most states receive less money to deal with their problems than under the old system of categorical grants, because of their unequal tax efforts which previously were not taken into account.

The political context

In stressing decentralisation, the president is trying to relieve the national government of the responsibility of establishing national goals and of directing the spending of money to meet those challenges. His revolution is turning into a counter-revolution. For it was initially the weakness and inequities in local government that led federal government to the position of elevating its revenue-raising capabilities.

In devising the GI Bill programme after World War II, the federal government did not force every returning veteran into college or tell those who went what they should study. It did, however, assert a national will.

It spent billions of dollars to encourage the training and education of the postwar generation and to keep it from overwhelming the job market during the postwar demobilisation. It required veterans to account for their expenditures, and it set standards for the schools that wished to compete for their tuition.

The Civil Rights Act of 1964 also asserted a national will when it forced school districts and state institutions to integrate or risk losing their federal funding.

Instead of using its superior economic power to induce structural reforms at all levels of government, and establishing minimum standards in US social services, according to critics of his concepts the President is offering the national treasury to the perpetrators of inequity, whose motives are power rather than progress.

Two hundred years ago, the very size of the United States was enough to set the alarmists shivering, dreamers dreaming, and realists gambling. From the Atlantic to the Mississippi, from the Great Lakes to just short of the Gulf of Mexico, stretched a land as vast as France, Italy, Spain, Germany, Britain, and Ireland combined. No one knew, except in a casual way, that rich stores of coal, iron, copper and other minerals waited below the surface for the pick and shovel of industry; everyone knew that the surface itself was an abundance of one thing for which all men of that age hungered: deep, well-watered, fertile soil, which commanded toil beyond our imagining yet often paid off in reward beyond theirs.[14]

In a frontier society, decentralisation was a workable form of government. Each man had more than enough work to occupy himself, and was largely self-sufficient. What little government existed in this new and inexperienced nation of three and a half million people seemed just right.

Today, the US has over 200 million people and is over 10 times its original size.* It has been transformed from an agrarian society into an urban one. Yet we still govern ourselves as though we were living in a frontier society.

Every state and local government is currently undergoing a financial crisis. Wage clamours of newly militant unions of public employees, the soaring costs of construction, the slow-down in aid from the states to the cities and the slumping economy, have all put local governments in a position of having to play crisis politics.

"Cities are suffering either stalemate or elephantisis — an affliction whereby a particular activity, say, urban renewal or parkways (restricted-access highways through scenic areas), gets pushed to its ultimate 'success' totally without regard to its importance compared to the missions of other agencies."[15]

These problems can only be solved when the national government relieves the local authorities of responsibilities which affect the nation as a whole, ie education, welfare, mass transit, health insurance, and low-income housing, by offering them direction as well as revenue.

Alexander Hamilton certainly had his mind in the future when in 1788 he wrote, "Happy it is when the interest which the government has in the preservation of its own power coincides with a proper distribution of the public burdens and tends to guard the least wealthy part of the community from its oppression."[16]

* Total present US Area = 3 553 898 sq miles.
Original 13 colonies = 323 946 sq miles.
1790 pop 3 929 000
1969 pop 203 213 000

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Sam Passow is an American journalist working in London. He is currently news editor for the London Broadcasting Company.