

6A

## EDITORIAL/OPINION

# A New Federal-State Balance

By STEVE CHARNOVITZ

The fiscal relationship between the national government and the 50 states is garnering more attention this year than at any time since the 1960s.

Both the U.S. Senate and the House have passed rules to hinder "unfunded mandates." Congressional Republicans and the Clinton administration are battling over earmarks in the crime bill. The nation's governors, with new clout, are seeking to cut the strings on federal aid. Amid this frisson of activity, there is a rare opportunity to begin rationalizing our federal system.

A "federal" system is one of shared powers and responsibilities between national and sub-national governments. Ideally, a federal system can promote harmony by dividing responsibilities and permitting local diversity. Our system gets some of this benefit, but not much. Instead, much effort is wasted as the federal government micro-manages and the states search for gimmicks to capture more federal funding.

The new focus on federal-state issues is being driven by dissatisfaction with government programs. The public is unhappy about traffic jams, ineffective worker retraining and the inefficient welfare system. Unfortunately, the current division of responsibility obscures accountability.

As Office of Management and Budget Director Alice Rivlin pointed out in her landmark book, "Reviving the American Dream," "Citizens' lack of trust in government, especially at the federal level, is exacerbated by confusion over which level of government is in charge of what and how tax money is being spent."

The pressure to balance the federal budget is also drawing attention to the relationship between levels of government.

One of the biggest spending items is grants to the states, which rises to \$228 billion this year. About \$30 billion of these grants are funded through dedicated taxes, such as the highway trust fund. If those grants are subtracted, the remaining grants are about equal to the 1995 deficit, now projected at \$193 billion. In other words, the federal government takes in just enough revenue to pay for national programs. If

The governors are lions in opposing 'unfunded federal mandates.' But they are leeches in soliciting 'unfunded federal grants.' They want Washington to continue supplying grants to the states even though the federal treasury has to borrow the money for this generosity.

it didn't share this revenue with the states, the federal deficit would disappear.

There are four main reasons for federal grants to states and communities. The first is to provide for national needs like airline safety and interstate highways. The second is to deal with matters that cross state lines, like crop disease and deadbeat fathers. The third is to counter recessions with unemployment insurance. The fourth is to help geographically challenged states. For example, disaster relief and pollution cleanup at the Mexican border are justifiable.

The current catalog of federal assistance to states goes far beyond these functions, however.

This year, states and cities will get 24% of their funds from Washington. This arrangement constitutes bad management, because neither level of government is fully accountable for performance. Voters ought to see a clear line of authority so that they know whom to blame or reward.

Despite the need for fundamental change, most of the new reforms being suggested would provide only superficial improvements. The Republican governors want to convert existing categorical programs into large, flexible block grants.

The governors are lions in opposing "unfunded federal mandates." But they are leeches in soliciting "unfunded federal grants." They want Washington to continue supplying grants to the states even though the federal treasury has to borrow the money for this generosity.

In contrast to this statehouse entitlement mentality, real reform would mean large cutbacks in financial aid to the states. For programs that make individual states more competitive — such as infrastructure, community development and education — the national role should be very small. For programs that help states assist their poor citizens, there is a role for federal aid, but only to the lowest-income states.

One function of the federal government that merits upgrade and expansion is to serve as a clearinghouse for ideas on how to improve program implementation. Federal agencies also should sponsor more true experiments, as opposed to porcine demonstration projects.

There also is a need to conduct rigorous evaluations of all programs. The states are "laboratories for democracy," but not very careful ones. What's been missing are the lab technicians.

The reforms suggested here do not weaken the central government or the states. They would strengthen both levels by allowing Washington to concentrate on national issues and by allowing the states to plan and implement their own programs. Perpetuating state dependency via a new form of revenue-sharing is misguided. Instead, it is time to start correcting the misalignments in American federalism.

Steve Charnovitz writes often on business, economic and environmental affairs.

