

FEDERAL-STATE-LOCAL RELATIONS:  
WHERE DO WE STAND?

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before the  
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This is a happy occasion for me. My associations with the Council of State Governments and its affiliated organizations span two decades and have been for me both pleasant and rewarding.

I am glad to be with so many friends today, particularly as we address ourselves to a most difficult and most important subject-- "Federal-State-Local Relations: Where Do We Stand?"

The theme of the morning session is too large, too complex, and too fluid to be encompassed in an address, in a half-day session, or in a lifetime. The role of each element of our federal system, the connection of each segment of the structure to each other segment, the relationship of the several parts to the whole fabric of government-- all these resist precise definition. Societies evolve governmental structures; they do not build them overnight. By the same token, the structures change as needs and conditions change.

The architects of the Constitution envisioned that except for a few clearly enumerated functions the States would be the "chosen

of our federalism is its truly remarkable ability to adapt to the requirements of a world in which change is commonplace. In the final analysis we must place our faith where the founding fathers placed it-- in the judgement and determination of a free people and the leaders whom they choose. There will be problems, of course. Problems are built into our concept of divided responsibility and multilevel government. But these are part of the price of freedom and democracy, and to achieve these ends, no price is too high.

instrument" of domestic government. And, by and large, that was the case for a century and more. They truly were laboratories for experiments in the art of governing.

Let no one minimize the success of these State initiatives and the skillful but often unsung manner in which State responsibilities were fulfilled. The States have been the custodians of a major share of our progress towards a stable society; the foundations of our strength and prosperity, in large part, were laid by the States.

It is, nevertheless, true that the relationships among the several levels of governments have changed. Earlier our federal system could be described as one offering parallel citizenship and complimentary governments serving different levels of need--federal, State, and local. We have moved increasingly toward parallel citizenship and overlapping governments serving the same areas of need. Today, on the domestic scene, almost no governmental activity is the exclusive responsibility of any one level; virtually all domestic activities are jointly financed or jointly administered, or both, by two or more levels of government.

To put it quantitatively, the States and localities have found it politically difficult to raise the revenue needed to accomplish all the things demanded by the people, and they and their citizens have turned to the principal revenue collector--the Federal Government.

Despite the powerful centralizing trends of recent decades, however, the fundamental bases of federalism remain strong. Federalism

is imbedded in our Constitution. It is seared into our political value system and it draws strength from social reality--although we grow constantly more interdependent economically and culturally, we remain, none the less, a people of varying attitudes and needs and a nation of widely diverse regions.

Those who visualize federalism as necessarily a static, stable relationship among levels of government do not understand its nature; they ignore its dynamic character. The constant and continuing struggle among the several levels to reconcile and balance the forces for and against centralization is a distinguishing feature of our system. That's the way the federal plan was conceived, and that's the way it works.

The struggle--the pulling and hauling--creates tensions and conflicts. The manner in which those tensions are eased and the ways in which those conflicts are resolved will determine whether we maintain a course of federalism marked by partnership among the several levels or instead we veer toward a pattern of centralization in which the National Government emerges overwhelmingly dominant.

Intergovernmental problems offer an awesome challenge to federalism as we now know it. And as government grows, intergovernmental problems grow. With this in mind Congress, in 1959, set up the Advisory Commission on Intergovernmental Relations as a permanent, independent agency and charged it with the dual task of analyzing intergovernmental problems and formulating recommendations for their solution.

The Commission is a 26 member bipartisan body with representation from all levels of government. A majority of the members are elected

State and local officials--four governors, three State legislators, four mayors and three county officials. The Federal Government is represented by three senators, three congressmen, and three officials of the executive branch. Three public members complete the Commission roster. Because of its composition the Commission is uniquely able to bring to bear on intergovernmental problems the judgement of experienced lawmakers and executive officials from all levels of government and from widely varied backgrounds.

In its examination of the ailments of federalism, the Advisory Commission has attempted to isolate the primary source of infection and to catalogue the major causes of intergovernmental tension and conflict. In our recently completed two-year study of Fiscal Balance in the American Federal System, three developments emerged as the most critical sources of infection: (1) the startling, mushroom growth of federal grant-in-aid programs, (2) the highly critical and potentially explosive metropolitan crisis; and, (3) fiscal imbalance both within and among levels of government.

#### Federal Grants-In-Aid

Between January and June of this year, during the time that I served as the President's "Ambassador to the States," I led teams of Federal officials to 40 State Capitols. A major purpose of this "Odyssey" was to confer with each governor and his official family on the operations of grant-in-aid programs and how they might be improved.

In my report to the President following these visits, I expressed my belief that the grant-in-aid system--which has developed as a unique feature of American federalism--is basically sound and will be an increasingly powerful force for progress in the years to come. But if the grant-in-aid system is to realize its full potential we must diagnose its weaknesses and take steps to cure them. Many of the weaknesses stem from rapid--perhaps much too rapid--expansion. Some two decades ago, in 1946, federal grants-in-aid to States and local governments totaled less than \$1 billion. By 1956 the amount had multiplied to \$3.3 billion. In the current fiscal year, federal grants-in-aid will be in the neighborhood of \$17 billion. And the end is not yet in sight.

The number of separate grant-in-aid programs is not easy to pinpoint; partly it is a matter of definition. In 1962 the total number of authorizations in effect was 161. From 1963 through 1966, 218 new authorizations were added; bringing the total to 379. With growth of that magnitude it is not surprising that there are evidences of overlapping, duplication, frustration, and confusion.

Obviously there are too many separate programs and too little effective coordination. The Advisory Commission has recommended that Congress and the Executive Branch reduce the number of separate programs by at least one-half. As one means to this end, we urged that Congress give the President authority to propose grant consolidations subject to veto by either House along the lines of the Reorganization Act of 1949.

The Administration already has taken steps to meet this problem:

- (1) the new Partnership-in-Health Act; (2) the Presidential directive requiring coordination with the States in setting the boundaries of Federal planning and development districts; (3) the Presidential directive requiring clearance through the Advisory Commission of proposed federal regulations governing grant-in-aid programs; (4) the Budget Bureau study aimed at designing a system for consolidation of grants; (5) procedures for establishing more rational boundaries for Federal Regional offices; (6) the assignment to the Director of the Office of Emergency Planning of special responsibilities for Federal-State coordination.

Equally urgent is the need for the States and local governments to strengthen their capacity to analyze accurately and, if they choose, to utilize fully available Federal grants. The appointment of Federal-State Coordinators; meetings such as this under the leadership of the Council of State Governments; increased participation by State and local officials in proceedings leading to Federal programs and legislation; and very importantly, a new awareness of a need to be informed and to be heard--all these are substantive evidence that this goal is being achieved.

#### The Metropolitan Crisis

Let us turn now to the second major source of intergovernmental tension--the crisis in our cities. A year ago in its annual report the Advisory Commission warned:

The States are on the verge of losing control over the metropolitan problem; if they lose this control they lose the major responsibility for domestic government in the United States and in turn surrender a vital role in the American federal system. So, at the close of 1966, the tremendous task of financing, servicing, and governing Metropolitan America clearly poses the greatest challenge to federalism since the Civil War.

Much of the current sickness of our large cities is rooted in the increasing economic and fiscal disparities between central cities and suburbs.

This disparity is strikingly illustrated by the fact that the metropolitan areas of the United States account for:

- ...65 percent of the population
- ...70 percent of taxable assessed valuation
- ...at least three quarters of federal personal income tax collections
- ...80 percent of bank checking accounts

And, at the same time, the metropolitan areas suffer:

- ...most of the Nation's poverty!
- ...most of the Nation's crime and delinquency!
- ...most of the Nation's current disaffection, disarray, and civil disorder!

Obviously, the States must become more involved in meeting urban needs, and to do so must strengthen their own fiscal and administrative capabilities. For example, we believe they must:

- provide more flexibility in their constitutions for long-range State financing programs
- require and enforce effective local use of the property tax

- equip themselves with a productive and broad-based tax system capable of underwriting a major portion of the State-local expanding expenditure requirements
- add to their school aid formulas appropriate factors reflecting higher cost per pupil among disadvantaged as compared to advantaged children, especially in areas of high population density
  
- authorize an appropriate State agency to mandate the establishment of county or regional school property taxing districts

These actions are not solutions, but in a diverse Nation in which federalism is virile, they are the sine qua non of solutions. For balanced federalism cannot be achieved without matching strength with strength.

As I'm sure most of you know Commission recommendations for State legislative action of the kind I have cited are translated into bill form and published annually in our State Legislative Program. Over the years the ACIR State Legislative Program has provided the impetus for a large volume of constructive State activity.

#### Growing Fiscal Imbalance

A growing "fiscal mismatch" is the third major source of inter-governmental tension. The enormous productivity of the Federal income tax and the prospect of periodic Federal tax cuts or surpluses stand in sharp contrast to the general State and local fiscal picture. Harnessed to a less productive tax system and hobbled by the fear of interstate tax competition State legislators move through a crossfire laid down by those who demand tax relief and those who urge greater outlays of State funds.

Less than three years ago, there was a lively debate over the alternative ways of distributing an impending Federal surplus. Economists foresaw recurring National Government surpluses--a "fiscal drag" on the economy--created by the ability of the Federal tax system to generate more revenue than the National Government required. At the same time State and local governments were depicted as relative paupers subsisting on an inadequate revenue system and providing an inadequate level of public services--a fiscal mismatch of classic proportions.

In the current fiscal year--in contrast--we have a National Government confronted with the prospect of a deficit of up to \$20 billion while State and local revenue needs continue to grow. In one respect the situation remains unchanged. Many State and local governments continue to limp along from one financial crisis to another despite the fact that last year they collected two-and-one-half times as much as they did ten years ago; and despite the further fact that for the last 20 years they have sustained annual increases in expenditures of 7 to 10 percent.

What does the future hold? Indications are strong that the demands for State and local expenditures will continue to grow. Technological change, population mobility, increased living standards, accelerated business activity, inflation--these are only a few of the forces fueling the demand for more and better governmental services.

Is our federal system capable of weathering the storms that surely lie ahead? I have no doubt that it can and will. A fundamental strength