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INTRODUCTION

Intergovernmental Management and the Challenges Ahead

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The intergovernmental system in the United States faces emerging challenges ushered in by economic, technological, and demographic trends of the twenty-first-century. As the nation's population ages, all levels of government will face new and more difficult fiscal choices that will test the capacity of our system to respond to emerging needs. At the same time, our institutional capacity to analyze these changes, to assess their implications for the intergovernmental system, and to craft sensible and effective policy responses has been diminishing. Particularly at the national level, an analytical infrastructure of executive branch entities, legislative subcommittees, and independent federal agencies that was gradually constructed over many years has been pruned and allowed to erode, thus undermining our institutional capacity to respond as new problems emerge. In a modest way, this book is intended to help address this knowledge gap.

New Challenges

Demographic, technological, and social changes are reshaping the nation's economy and creating new challenges for governments at all levels. An aging society and new health care technologies are driving health care costs to ever

higher levels. By some estimates, total health care expenditures are projected to reach 20 percent of gross domestic product by 2016. Spending for Medicare and Medicaid alone is projected to make up more than 31 percent of the total federal budget by 2017 and, without policy changes, will continue to grow further in subsequent years.¹ State budgets are also projected to become increasingly dominated by health care expenditures, squeezing the fiscal capacity needed to address infrastructure, education, and other emerging demands. State and local revenue systems face new challenges from a more globalized and technocratic economy with more mobile sources of commerce and income that can elude the grasp of taxing authorities at sub-national, and even national, levels of government.²

Fiscal limits and constraints, however, have not translated into downsized public expectations for government. Quite the contrary: public expectations for governmental responses to a wider range of public and private problems have prompted growth in the number, size, and complexity of governmental initiatives and programs. Most important, the major public problems and policy responses of recent years are overwhelmingly intergovernmental in nature. The nature of policy challenges and the resources needed to address them are not the preserve of a single level of government; rather, the problems and the solutions to emerging challenges are widely distributed throughout our intergovernmental system.

Accordingly, the programmatic and fiscal fortunes of all levels of government have become more intertwined and interdependent than ever before. From the federal perspective, state and local program priorities, management capacity, and fiscal resources have become more essential to the success of national initiatives in such areas as health care, education, homeland security, and environmental management. As the range of federal initiatives has grown, so has the reach of federal programs, resources, and mandates into an ever wider range of state and local activities heretofore largely untouched by intergovernmental systems, from fire departments to sales tax regimes to elections administration.

The spending priorities, programmatic choices, and management practices of state and local government have increasingly come to reflect the initiatives of numerous national and even international actors and influences. On the spending side, Medicaid has nearly doubled as a share of state budgets over the past ten years and is expected to constitute one-third of state budgets over the next ten years. On the revenue side, state and local governments' revenue policies and administration have increasingly become constrained by federal preemptions, national and global business pressures, and emerging technological changes.

Adding complexity to these fiscal, demographic, and administrative challenges are correlated changes in our political system. Political processes, access, and communications have all been affected by changes in technology, finance, and organization. These changes have, in turn, altered the distribution of power within the intergovernmental system, often to the detriment of state and local governments. The explosion of interest groups and lobbyists in Washington, the proliferation of new forms of media, and changes in the political party system all affect the national policy process. They have also contributed to the rise of more self-interested, opportunistic behavior among actors in the intergovernmental system, as witnessed by the continued growth of categorical grants and the explosion of earmarks in the past ten years.

In some respects, these changes are a continuation of long-standing trends in the federal system that have been noted for more than forty years. What is new is the range of program areas that are touched by these issues and the growing stakes associated with intergovernmental programs. These trends are epitomized by the emergence of local fire departments—one of the last bastions of purely localized services—as a critical front line in the national homeland security initiative. Similarly, local schools have become a target in the national bull's-eye on education reform. Performance failures by these quintessentially local institutions now have come to be seen as having major national consequences, whether it be for national security or for the nation's educational and economic future.

These challenges will test the capacity, flexibility, and adaptability of our intergovernmental system. The design and management of intergovernmental programs have become more critical to the achievement of national goals across many areas. The emergence of new federal models of accountability for national performance goals in education, welfare, and environmental protection will test the capacity of the system to address national performance outcomes while also adapting these programs to the unique priorities, needs, and capacities of state and local systems. Emerging state and local forms of collective action will also have an impact on national goals—whether from states that have organized to achieve common objectives in such areas as streamlining sales tax policy and administration or from local areas that have reinvigorated regionalism to address spillovers and achieve more uniform policy outcomes across a regional area.

Eroding Institutional Capacity

As these changes unfold, the capacity of our intergovernmental system to systematically assess and respond to these developments will be tested as well.

Monitoring the performance and capacity of a diverse system of intergovernmental partners has always been a challenge. As the importance and relevance of intergovernmental management become more central to more policy areas, gaining a systematic and credible understanding of trends in the fiscal, programmatic, and administrative capacity of the system has become more critical.

At the same time that our need for understanding complex intergovernmental relationships is growing, our institutional capacity for intergovernmental monitoring and analysis has been weakened. Over the past quarter century, the small but invaluable network of federal offices and agencies established to help improve and rationalize intergovernmental management has been diminished, disbanded, or transformed into instruments of advocacy. At the same time, congressional attention to issues of intergovernmental relations and public administration has also eroded as intergovernmental subcommittees have been abolished or diminished in stature.

Organizational changes in the federal executive branch have been particularly striking. The White House Office of Intergovernmental Affairs, which traces its origins back to the Kestnbaum Commission of the 1950s, has gradually lost analytic capacity and policy influence. Since the mid-1980s its role has rarely extended beyond political outreach and liaison activities with state and local officials. Indeed, the office is hardly visible in the Bush White House, having been eclipsed by the president's faith-based initiative and political operations.

The Office of Management and Budget, a once-robust presence in intergovernmental management in the late 1960s and early 1970s, also dwindled over time. The intergovernmental relations office was formally abolished in 1983, and its responsibilities were divided or disbanded over time. "There is no crosscutting intergovernmental management institution any more," observes Dwight Ink, a former OMB assistant director.³ Similarly, the Treasury Department's Office of State and Local Finance, once an important source of information and expertise on intergovernmental financial issues, was eliminated in 1988 and never replaced.

Nowhere has the decline in federal intergovernmental expertise been more dramatic than in the elimination of the Advisory Commission on Intergovernmental Relations (ACIR) in 1996. As the "permanent" successor to the Kestnbaum Commission, the ACIR was once a major source of data, policy analysis, and intergovernmental management expertise in the federal government. It played an important role in the design and creation of a host of intergovernmental policy initiatives, including General Revenue Sharing,

block grants, and unfunded mandates reform. It also produced landmark research on public finance, intergovernmental regulation, substate and multi-state regionalism, and the grant-in-aid system. Yet a slow period of decline beginning in the 1980s culminated in drastic budget cuts and the agency's ultimate termination by the 104th Congress.

Legislative indifference to the infrastructure of intergovernmental management was exhibited within Congress as well. Legislative subcommittees on intergovernmental relations, which were established in both the House and the Senate in the 1950s and early 1960s, became active centers of legislative initiatives and oversight from the 1960s through the mid-1980s. In 1987, however, the Senate abolished its stand-alone subcommittee on intergovernmental relations, merging it with the former subcommittee on the District of Columbia. Since 1995 there has been no Senate subcommittee with "intergovernmental relations" in its title. In the House, the Subcommittee on Human Resources and Intergovernmental Relations became the Subcommittee on Human Resources in 1997. "Intergovernmental relations" was temporarily restored to the title of a minor House subcommittee in 2001,⁴ but that too was abolished in the 109th Congress. Today, only the Government Accountability Office and the Congressional Budget Office have small organized units dedicated to intergovernmental management and policy issues.

Consequently, the capacity of our policymaking institutions to oversee the performance of the system and to take concerted action to strengthen that system has become a defining issue for effective governance in the twenty-first century. Although in recent years each level of government has fortified its capacity to measure its costs and performance, the management of programs and policies across boundaries has yet to become a focus for concerted attention, analysis, and reform.

The Outline of this Book

This volume is intended to chart potential pathways for improving governance in our intergovernmental system. The chapters in the first section provide an analysis of trends that are shaping current practice in the intergovernmental system as well as analytical frameworks for interpreting those trends. Later chapters examine in more detail specific policy arenas in which intergovernmental management is central to policy outcomes and debates—homeland security, education, welfare reform, environmental policy, and health care. The book concludes with chapters addressing the capacity of the system to govern, oversee, and reform the intergovernmental system.

Framing the Intergovernmental Debate

Part 1 presents analyses designed to help illuminate the evolution of contemporary federalism as well as fiscal, regulatory, and political trends that are shaping the context of intergovernmental management. In chapter 2, Richard Nathan argues that the federal system has been a powerful driver of governmental growth in the United States. This argument builds upon his earlier proposition that American federalism has evolved in cycles of federal-state activism. Specifically, Nathan has argued that during past periods of national conservative dominance states served as the centers of progressive policy experimentation, though during eras of national liberalism they have often seemed to be conservative bulwarks.⁵ Here he takes the argument further, suggesting that over time this process has the effect of ratcheting up governmental growth and activism, as expansive innovations at one level become the foundation for expanded programs at the other, once political conditions turn favorable.

In chapter 3, Timothy Conlan takes up the topic of federal evolution from another perspective. Conlan suggests that we have exhausted our insights from the Betty Crocker school of intergovernmental analysis, with its proliferation of federalism cake metaphors, and recommends turning to paradigms drawn from the natural sciences to help interpret developmental processes in the federal system. In particular, he suggests that geology can provide a rich vein of analogies for understanding both periods of change in the federal system and major continuities from one era to the next.

Fiscal and economic trends shaping the future of intergovernmental relations are analyzed by Ray Scheppach and Frank Shafroth in chapter 4. The authors outline the forces driving the emerging economy—globalization, technology, deregulation, and demographic change—and sketch their implications for federal and state expenditure and revenue systems. They suggest a series of budgetary reforms and changes in taxation to help the intergovernmental system cope with the challenges ahead.

Major Policy Issues Testing the Intergovernmental System

Part 2 focuses on specific policy domains in which the intergovernmental system is facing contemporary challenges. In chapter 5, Charles Wise and Rania Nader examine the post-9/11 expansion of federal involvement in homeland security and national efforts to create an integrated intergovernmental system in this policy field. They explore the challenges of designing, funding, and implementing a coordinated system of emergency planning,

intelligence, preparedness, and response in a domain characterized by conflicting federal, state, and local roles, resources, and capabilities.

A similar theme of intergovernmental tension is developed by Kenneth Wong in chapter 6, which examines the Bush administration's efforts to shape education standards and services in the traditionally decentralized field of public education. Wong places the No Child Left Behind program in the context of earlier state and federal efforts to improve performance standards in education and to increase public education services to poor children. He also analyzes the challenges of policy design and implementation in this field and the intergovernmental intersection of education initiatives at multiple levels of government, from voucher initiatives to state takeovers of failing local schools.

In contrast to nationalizing trends in homeland security and education, welfare policy was the focus of a widely heralded attempt at policy devolution in 1996, when Congress replaced Aid to Families with Dependent Children with the Temporary Assistance for Needy Families (TANF) block grant. In chapter 7, Jocelyn Johnston seeks to gauge the success of this effort by exploring the implementation of welfare reform and its policy consequences. She examines new areas of state discretion provided by welfare reform as well as the impact of tightened federal standards for welfare eligibility and job placement. Finally, she assesses the intergovernmental effects of welfare reform's reauthorization in 2006.

Another technique of policy decentralization is explored by Carol and William Weissert in chapter 8, which analyzes the effects of federal waivers in the administration of state Medicaid programs. Just as waivers were used to experiment with welfare reform before the enactment of TANF, administrative waivers of federal rules and standards in the Medicaid program are allowing new approaches to the delivery of health services to the poor in several states. The Weisserts examine the political and administrative strengths and weaknesses of waivers as a tool of intergovernmental management. They also examine programs being developed and implemented in states such as Florida and Massachusetts, seeking to uncover emerging trends in health care finance and service delivery.

A final chapter in part 2 explores decentralized policy innovation at the state level in the absence of explicit federal policy initiatives. In chapter 9, Barry Rabe examines the proliferation of state global warming initiatives. He pays particular attention to "bottom-up" regional efforts, seeking to discover whether this form of decentralized regionalism can represent a new model for environmental policymaking.

Issues of Governance in the Intergovernmental System

A final set of chapters in this book looks at crosscutting issues of governance, management, and reform in intergovernmental programs. Chapters 10 and 11 constitute a dialogue on the strengths and weaknesses of performance management in the intergovernmental system. In chapter 10, Shelley Metzbaum proposes that federal agencies administering intergovernmental programs focus less on enforcing accountability and more on stimulating experimentation, learning, and diffusion of best practices among state and local implementers. To this end, she urges agencies to focus their energies on devising appropriate policy goals and performance measures, backed by appropriately structured incentives and penalties. In chapter 11, Beryl Radin also examines performance management in federal grant programs, but she stresses that caution is necessary to avoid negative and unanticipated consequences. Most important from an intergovernmental standpoint, Radin notes that performance management approaches have the potential to encourage unexpected and often excessive centralization in federal programs.

In various ways, issues of centralization and decentralization also emerge as critical issues in the final three chapters. In chapter 12, Carl Stenberg considers the future of block grants as a tool of devolution, based on experience with earlier block grants. He suggests that, by some measures, block grants can contribute a greater degree of flexibility to the intergovernmental system, but their potential is often overstated and difficult to realize.

Whereas block grants and other techniques of devolution are often constrained in their impact, Paul Posner finds in chapter 13 that the velocity of federal mandating has continued apace during the Bush administration. Although some anticipated a retreat—or at least a respite—from intergovernmental regulation during the first era of unified Republican control in Washington since the early Eisenhower administration, Posner documents the continued growth of federal mandates, including areas like education standards and fire protection that have traditionally been the preserves of state and local government. To explain this growth, Posner develops a model of mandate politics that focuses on the behavior of policymakers at both the national and subnational levels.

The theme of intergovernmental politics is continued in chapter 14, by Troy Smith. Smith examines the influence of intergovernmental lobbying on federal policymaking. Changes in judicial doctrines and in American politics have relaxed traditional constraints on intergovernmental policies, he argues, placing a premium on lobbying efforts by state and local officials. He

explores collective action problems that limit the ability of state and local government associations to work effectively on certain issues and examines the conditional strengths and weaknesses of individual state lobbying to influence federal policy decisions.

Finally, in chapter 15, Paul Posner and Tim Conlan take stock of the findings of previous chapters and consider options for policy responses and reform. They discuss the political roots of policy nationalization and the increasing velocity with which policy innovations at the state level are emulated by Washington and often reimposed as mandates on the states. They also discuss the erosion of cooperative federalism and the transition to more coercive and opportunistic forms of intergovernmental relations. Although the federal government continues to “borrow strength” from states and localities for the administration and partial financing of federal policy initiatives, Posner and Conlan also note that such strength cannot merely be assumed in the future, given the expected economic and demographic challenges in the years ahead. Finally, they consider the enduring strengths of the federal system, strengths that may help it meet the policy and managerial challenges in the years ahead.

Notes

1. U.S. Department of Health and Human Services, Office of Assistant Secretary for Planning and Evaluation, *An Overview of the U.S. Health Care System* (Centers for Medicaid and Medicare Services, 2007); Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008–2017* (2007), p. 50.

2. Center for Intergovernmental Relations, *Financing Governments in the 21st Century: Intergovernmental Collaboration Can Promote Fiscal and Economic Goals* (Washington: National Academy of Public Administration, 2006).

3. Quoted in Tim Conlan, “From Cooperative to Opportunistic Federalism: Reflections on the Half-Century Anniversary of the Commission on Intergovernmental Relations,” *Public Administration Review* 66 (September–October 2006): 663–76, p. 669.

4. The House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and Census.

5. Richard P. Nathan, “Federalism: The Great ‘Composition,’” in *The New American Political System*, edited by Anthony King, 2d ed. (Washington: American Enterprise Institute, 1990), pp. 241–45.

