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De Facto New Federalism and New England:

A Discussion

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Using John Shannon's paper as a broad frame of reference (see previous article), a panel discussion titled "The Changing Nature of Federal/State Relations: The Fiscal Impact on New England" took place on 18 November 1985 at the University of Massachusetts at Boston. The discussion was sponsored by the John W. McCormack Institute of Public Affairs and was presented in a roundtable forum. The members of the panel were Kenneth Curtis, former governor of Maine; Chester Atkins, member of Congress from the Massachusetts Fifth Congressional District; Richard Licht, lieutenant governor of Rhode Island; David Walker, professor of political science at the University of Connecticut and former assistant director of the Government Structure and Function Section, Advisory Commission on Intergovernmental Relations; and Roger Porter, professor of government and business at the John F. Kennedy School of Government and former special assistant to President Reagan. The following are excerpts from their remarks.

KENNETH CURTIS: The concept of new federalism isn't something that's been around for a short period of time. We've really been talking about it for a number of years. It's frequently had different titles and it's been promoted in different ways. For those of us who have served in state government it has had one very clear definition, which is that the federal government will authorize and support many types of governmental assistance. So-called de facto new federalism simply means that the states, the municipalities, will begin to pay a much bigger share for those particular programs.

I remember well that block grants were among the first propositions that sounded attractive to the states. And that's because the states understood what their own individual needs were far better than the federal government did. We would receive a blanket amount of money and would spread it throughout our states in the most efficient way. But the problem was that under the block grant program, we never were going to get back as much as we were getting in categorical grants.

When I was governor of Maine, governors supported very fully, and on a bipartisan basis, the concept of general revenue sharing. I think that was the first time we began to realize that governors had any power at all in this country. General revenue sharing was not especially liked by Congress. Many members of Congress much preferred the categorical grant program because they could take credit directly with the

voters for that kind of support; and governors got a little bit of relief in not having to approach the legislature quite so heavily for the taxes required to do the many things that were needed. In Maine, general revenue sharing did a tremendous amount of good, because those funds were dedicated directly to the support of public education and to a very large degree helped stabilize what was becoming a runaway escalation of property tax. So from my vantage point, that was one of the best types of new federalism we had seen, if you want to call it that.

But you know, new federalism to me has always been sold as a sugar-coated pill. It always carried a bigger burden for the states and municipalities. President Reagan, even since his days as governor of California, has been a proponent of new federalism. I think he's succeeded, certainly, but probably more in bringing about the concept of *de facto* new federalism, as John Shannon called it in the title of his paper. It's been a new *de facto* federalism simply because there are no longer enough federal dollars to go around. One of the things that concerns me is the argument put forward at times by the administration that the federal government has very large and record deficits, whereas the states are not running deficits. Of course, there's a big difference. Most states have a constitutional provision that will not allow them to run deficits and that forces balanced budgets. But we all need to remember that the federal government is still taking the lion's share of the taxing power in this country, leaving an increasingly small amount of room to maneuver at the municipal and state levels.

There's another factor that gets involved, and this is where politics rears its rather ugly head: it's the question of who wants to get blamed for raising the taxes. Certainly Congress doesn't want that distinction, and the states don't want it either. We shove it down until it hits the municipalities, where either the programs have to be cut or our own taxes have to be raised. It's a hard point to get across from any governmental level—that the great middle class are the taxpayers and it just depends on which pocket they're going to take their money from. I know during my days in Maine we believed very strongly that we should not discuss the state budget by itself, that we ought to be discussing municipal and state budgets collectively so that the taxpayers better understood what price they were going to be paying. We wanted to extract their tax dollars in the most fair, efficient, and progressive way we could, and we wanted the taxpayers to know what we were doing.

Turning very quickly to Maine and the current situation, Maine is going to face many, many severe problems, one of which is the loss of revenue sharing. Our property taxes are again getting very nearly out of control. We've had such appreciation in property values that individuals have seen their property taxes rise to an extent that is almost confiscatory. When we lose federal revenue sharing, about \$33 million a year will bounce back to municipal taxpayers, money that's been taking the form of aid to public education. Also, the municipalities are going to continue to be hit very, very heavily as aid continues to dwindle for human service programs. We don't know, of course, what the final budget's going to be, but we have many estimates which indicate that Maine will lose between 10 and 12 percent of its general fund through federal cuts. John Shannon indicated another factor that's very serious to us in Maine, which is that our state is thirty-ninth in the nation in per capita personal income. Thirty percent of the total state budget is in federal funds. And Maine is one of the states that receives a dollar for every 61 cents it sends to Washington. Whether we call it new federalism or not—I prefer to call it federal economic policies—they're hurting us in many other ways as well.

However, there is some very good news. The states are the innovative areas today in government. In fact, innovation is so lacking at the federal level that the states and municipalities are the only game in town. So we're getting a lot of talented people now at the state level, and I think they're doing a tremendous job against great odds. But the states can't act alone. My only disagreement with John Shannon is that I think it's going to get worse.

CHESTER ATKINS: I want to disagree very strongly with the gloom and doom of the previous speaker and of John Shannon.

I think what's happened is that a concept of a stronger centralized federal government—the old federalism, if you will—was established fifty years ago, and it worked. The old federalism was driven essentially by four things. The first was that the federal government had a sense that it had to be more active in the economy and in the social structure. It had the direct access to income taxation which most states didn't have. What's happened now, very clearly, is that the federal government does not have any flexibility in the taxation area, and the places where we have the greatest ability to tax, personal income and corporate income, are exactly the taxes that have the worst impact on our international competitive position. So we have a situation in which taxing authority and taxing flexibility have shifted from the federal government to the state governments. The tax revolt started with Proposition 13 in California, but the states are now resisting that. You're not seeing new measures to limit the taxing authority of state and local governments. When such measures are put on the ballot, they're defeated.

The second thing that drove the old federalism was civil rights. Because the South, in particular, was so segregated fifty years ago, it was important for resources to be directed by the federal government, and this became increasingly important in the sixties simply to ensure that minorities had equal access to these programs. Now the only attorney general in the United States and its territories who is less aggressive than Attorney General Meese is in Guam, and that's because they have no civil rights problems there since everyone is of the same ethnic origin, except for the tourists. All the states that made up the Solid South are the very states with laws on the books that are more aggressive than the federal government. Not just their practices or their attorneys general, but the state laws themselves.

The third concept behind the old federalism was that the federal government could create an equalization of resources between rich states and poor states. There were massive disparities in median income, particularly in the Deep South and the industrial Northeast. But today, most of the economic disparity occurs *within* states. It's hard to think of a state in the country that's an economic basket case—there isn't one. But there are regions within very wealthy states that are extremely poor.

And finally, since it was more activist than the states, only the federal government had the civil service traditions and the administrative capacity to run domestic programs. Well, that's no longer the case. There isn't a state in the country that doesn't have more of a capacity to run them than the federal government, which virtually has declared war on all of these programs. People on the federal level who are running the programs are the same people who want to abolish them. That's their stated objective.

So the question really is, how do we get beyond the paralysis that we are in? I think the first thing we do is give up and stop clinging to our notion of the old feder-

alism. Second, we recognize that state and local governments are a tremendous success story. They have built the administrative capacity, the commitment in terms of social justice and economic opportunity, and they've left the federal government in the dust, frankly, particularly under the present administration. The thing that's shackling their ability to meet the unmet needs in their jurisdictions is twofold. One is federal regulation. Many of the regulations that we put on the books to protect essentially poor people and localities are now inhibiting any kind of innovation for meeting new problems. AFDC is a case in point. The federal laws and the federal regulations on AFDC simply serve to keep people in poverty. We should look at some of the federal mandates that are restricting flexibility and creativity on the part of state and local governments. We do have to be very sure that we maintain the protections that people have had historically, and that we maintain civil rights protection. State and local governments—all fifty of them—aren't always going to be more progressive than the federal government. They certainly will continue to be more flexible and more capable of meeting changing situations.

I think we also need to take a look at some of those federal domestic expenditures that are administered and coordinated better on the state level. For instance, the interstate highway system—we've already built it. Other than basically maintaining certain uniform national traffic safety features, which, frankly, it does very poorly now, the federal government ought to get out of that business entirely and return all the gas tax to the states. Then the states could meet their real transportation priorities. The huge federal highway administration bureaucracy could be eliminated, and the federal government would stop forcing on states crazy projects that they would never build with their own money but do build because they can do it with a ten-cent dollar—money they don't get unless they build the particular project the Federal Highway Administration and Congress want.

I could go on and on, but the key is that we ought to cut the states loose from their federal shackles—from some of them, anyway—and allow them to be more creative. We ought to give them revenue sources for things that are best done on the state level; and we ought to ensure that there's a national policy for income support for everyone—that the federal government indeed provides some kind of social safety net, especially in nutrition and income maintenance. We should ensure that there are uniform federal standards for that, which, by the way, do not currently exist. We should make certain that environmental standards are met. If we allow the states to continue to evolve as they have been evolving in the past fifty years, I think we'll see a flowering of the kinds of programs and the kinds of innovation that anybody who believes in an activist government would like to see. At the same time we'll see civil rights protected, and environmental concerns protected, and we'll be able at the federal level to cope with the deficit.

Frankly, the most destructive thing contributing to the present paralysis is that the Democrats are clutching onto the teeny piece of the federal government that constitutes domestic programs, and in return for that, on the deals we make on the budget resolution, we allow for huge increases in defense expenditures. And if we didn't have to bargain in this way, we could force the cuts we need in defense expenditures. This would give us the credibility we need to increase federal revenues to deal with the deficit and allow the states to do the kinds of things they do so well with the domestic programs.

RICHARD LICHT: The debate on this subject reminds me of the story of the man who was drowning in the Potomac River about fifty feet from shore while on the sidelines were standing two congressmen. One was a Democrat and the other was a Republican. And both of them were conscientious public servants and wanted to help this drowning man. The Republican had a life preserver with a twenty-five-foot-long rope and threw it out, saying, "I want to help this man, but I believe if he's going to be saved he also has to try to help himself." The Democrat took a life preserver with a hundred feet of rope and threw it far out over the drowning man's head and said, "I also want to help this man, but I have to run off now to do another good deed." I think that what's happening in Washington is that no one wants to address the problem of the drowning man. I think they're using a misnomer, or perhaps even a euphemism, when they talk about the new federalism. It's really just an abdication by the federal government of any responsibility whatsoever for fashioning any solution to today's social problems that we around the country are dealing with on a day-to-day basis. The reality is that we have to deal with that situation.

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We've talked a lot about the budget, but there's a second issue that has to be discussed in terms of its effect on the states, and that's tax reform. I don't know whether we will or we won't have tax reform, but they talk about it. And the elimination of the state and local tax deduction, which everyone assures me won't happen, is still out there on the table. If that happens, it will have a very grave impact on the economic development plans of a number of states. I know it will in Rhode Island and Massachusetts and many other Northeastern states. But speaking of tax reform, very few people are talking about the changes in tax-exempt bond financing and what these changes are going to do. If passed in Treasury 2, they're going to eliminate many of the tax-exempt financing plans that have been used in the states for years, including water treatment plants, plans for solid waste disposal, and health and education plans in our hospitals and schools, both public and private. Those institutions will be forced to raise money or borrow money at much higher interest rates, which will have an impact both on state and local governments.

The other point that concerns me a great deal and that no one wants to talk about is the process that goes on in Washington with regard to passing budget bills. We're now two months into the current budget season and only one of the thirteen appropriation bills has even been passed in Congress. The budget resolution really doesn't necessarily mean anything until they pass the appropriation bills. We at the state and local levels are trying to plan our budgets in advance in a timely, sensible manner, and we have no idea what the federal government will or won't cut this year or even in future years. This uncertainty about the budget is plaguing state and local governments, and Congress just doesn't want to pay a lot of attention to the problem. I wish they'd at least make their decisions so we could plan properly and be as resilient as the prior speakers say we are.

Another concern I have is with regard to what Congress is going to do after it gets out of dispensing money. Since there'll be no more money to dispense, is Congress then going to get into traditional state functions and start passing all sorts of laws telling us how to run our state governments and our state societies? That is a fear I have, being a former legislator. It's nice to go back to your constituents and say you got some legislation passed. Congressmen and senators could come back and say, I got this federal money for you and that federal money for you. Well, they're not going to

be able to say that much anymore, so are they going to come back and start regulating in all sorts of areas? Areas that were traditional state functions—consumer protection, insurance industries—will now become the domain of congressmen who need to run for reelection. They're in the banking area already.

Another issue I'd like to raise is the question of what really is being cut when you talk about the budget cuts. I agree with John Shannon that we should protect the most indigent people we have in this country and continue the programs we have for them. The problem is that the only federal programs this leaves to cut are those which have benefited the middle class. Since that's where the bulk of the votes are, cuts in these programs are going to create problems for state government. Also, a lot of those programs are urban mass transportation programs, which benefit people in the entire economic spectrum. Economic development programs such as UDAGs (Urban Development Action Grants) and Community Economic Development Grants are all going to go by the wayside, undoubtedly, and they have been very helpful to the states in promoting economic development and helping to bring about some of the good times we've had over the past several years.

I want to close by reiterating a point that's been made about the states being laboratories. That's not a new concept. It was Justice Brandeis who first used the term, many years ago. At that time the states were enacting imaginative labor laws, like the prohibition of child labor, and they frequently came to the Supreme Court for decision. In Rhode Island, we've led the nation in deinstitutionalization of both the mentally retarded and the mentally ill. I visited a program in Newport for mentally ill people who were no longer institutionalized. They were living in community homes, and the people who ran the program were trying to get them jobs and were succeeding, especially in the tourist industry. The problem, however, was getting the people to be willing to work, because if they did go to work, their entire support structure was pulled out from under them. They lost their SSI, their Social Security, their food stamps, their housing assistance, and everything else. And if they went to the job and just didn't make it, they couldn't go back on SSI, because you have to show that you're totally incapacitated in order to collect SSI. And if you held a job, even if it was only for a couple of weeks, the assumption is made that you're able to get a job and can get another one. So these people were fearful of going out into the community. Again, it was the federal regulations that were preventing what was not just an innovative state program but really an innovative private program from working.

So these are some of my thoughts. We who are on the firing line in the states are ready to assume the burden, but we need to be given some indication of which way we're going. Then we'll have to handle it for better or worse.

DAVID WALKER: What I'm going to say will differ somewhat from what the previous speakers said. I think many of the trends that have been discussed here are still in some stage of murkiness, if not total ambivalence. The overriding theme at the moment would appear to be the fiscal one, [but] one has also to look at where this fits into the overall system. I use three factors at the present time to gauge things. One's the operational, of which fiscal matters—grants and aid, programs, inter-governmental administration—are all a part. The second, given the extraordinary activism of this presumably conservative Court, is the constitutional, legal, and congressional tendency to preempt. The third factor is the political/representational, the skill and the ability of state and local governments and their elected officials to effec-

tively represent their positions in Washington, compared to what they could have done twenty-five years ago.

Starting with the operational and looking at the fiscal component of that, there's no way to deny the receding of the high level of federal aid as a proportion of state and local revenue—as John Shannon highlighted all too well—compared to almost any point in the recent past, back to 1978, which was the high-water mark. At the same time, when you reach 23 percent, which we did as of 1983–84, you're no farther back than we were in the middle Nixon years in terms of federal aid as a proportion of total state and local revenues—which is to say we're not back to Johnson, and we're nowhere near Herbert Hoover. Deficits, I think, are the overriding politics in Washington at the present time, but despite that, if the scenario that was forecast in the fall of 1981 had been played out, the present figure for federal aid, for fiscal '85, would have been in the area of \$61 billion, rather than \$107 billion, as it was. To put it differently, in '82, '83, and '84, the Congress presented the president with a series of appropriation bills on the order of \$7, \$8, and \$9 billion greater than what he asked for, and he signed all of them. This year may be different, but the previous three years would indicate that there's a capacity even in a period of retrenchment, even in a period of deficit politics, to achieve a certain very slow increase—some would say it was static in terms of constant dollars—but it was about a 5 percent real dollar increase in fiscal '85 over '84.

If one looks at the programmatic dimension of the operational factor—namely, the programs themselves—there's been no repeal of any of the Johnson major programs throughout the entire period. None of them have been repealed. We've had a merger of some seventy-seven-odd, rather pitifully small categorical and two block grants into nine block grants. We had the elimination of some sixty-odd categorical programs, largely in education and somewhat in economic development in the multistate area. But there has been no major abandonment. In fact, the figures for Medicaid, AFDC, and food stamps are all greater now, in terms of total dollar volume, than they were in 1981 or in the last year of Carter. So that must be kept in mind to get some perspective on this. Paradoxically, we've got thirteen block grants now, as against the old five that we had as of 1980. Thirteen, plus general revenue sharing, and the total of that amount comes to something like 18 percent of federal aid at the moment. As of '83 and '84 the total proportion of federal aid bypassing state government and going directly to cities and counties still aggregated 22 percent, the same figure as in the last year of Mr. Carter. Now, I'm not undermining in any way the thesis that there's obviously been a slowdown in the growth of aid. But to picture a total devolution from the figures that have been presented misses the mark, I think, significantly.

The second area is the legal, the constitutional/regulatory. And if one analyzes the input from the high Court and Congress and the administration in this area, one knows, I think, that the state and local people are in a far poorer, far weaker position than they were a decade or even five years ago. There's been no modification in the entire position in the high Court since 1923. The constitutional context is one in which the role of the federal government to allocate resources is preeminent. This power is reflected in *Massachusetts v. Mellon*,¹ which is still the law of the land and which says that Congress can append any conditions it wants to a grant made. The Supreme Court, in last year's *Garcia* decision,² affirmed the power of the federal government to determine local aid.

This leads me to the third factor—the political/representational factor. In the *Garcia* case, the majority on the Court held that the states and municipalities, through the use of their lobbying powers, were amply protected by the existing political processes to get what they needed. As far as the high Court is concerned, the capacity of cities and counties and states and school districts to lobby in Washington—in short, the strength of the representational components of federalism to be within the very bowels of the national government—and the fact that they can get grants from the national government, is all evidence that the states and localities are amply protected within the political processes of our national system. In fact, all the public interest groups, the governors and the legislators, the mayors, the county officials, and the school districts—and perhaps New England generally—they all are very well organized. And, I would add, they had better be, because the array of interests that are now in Washington has multiplied by a factor of at least six. And neither the economic nor the social nor the business lobbies are particularly sensitive to the interests of state and local government. The outcome of decisions in Washington, I would argue, at the present time, is in large measure a product of the interest-group-laden process that constitutes our national policy process. As a result, even though they are well organized, states and localities are at more of a disadvantage than they've ever been in the political/representational area.

So the picture is this. The states are weaker in the political/representational area and in the constitutional/regulatory area, but in an operational sense they're more or less holding their own. This only reiterates what John Shannon and others have said. The extraordinary capacity of this particular period, combined with the very difficult circumstances of states and localities generally, indicates a resourcefulness and a resilience to countermand and in some respects to thwart the efforts of Washington in the past four or five years. The capacity of certain state legislatures and governors to join in complementing, supplementing, and making up for certain kinds of cuts—a trend that started back in 1981—indicates a kind of strength that a lot of us—not including myself—felt was not there.

So the picture is mixed. The political processes in this country haven't changed very much. The only thing that's changed in a significant degree is the deficit question. And there is an attitude among state and local people that you can't go to Washington to solve all your problems. I think they knew that even in terms of middle to late Carter. But beyond that, the constitutional issue—and *Garcia* above all else, I would say—puts the localities in a new position vis-à-vis the high Court of the country and the orbit of the United States Constitution.

ROGER PORTER: It's a great experience for me to sit in the presence of a former professor of mine—Sam Beer—who has forgotten more about federalism than I ever learned.

I don't come full of answers to what seems to be the central preoccupation of our discussion today—the federal budget. I'm reminded of the story of the lion who was walking down the jungle path, asking each of the animals in turn, "Who is the king of the jungle?" And the animals responded very deferentially, "Why, you are, sir." Finally the lion came to the elephant, and he asked, "Who is the king of the jungle?" And the elephant responded by picking up the lion in his trunk, whirling him around his head, and dashing him against a tree. Whereupon the lion got up, deeply hurt and bedraggled, and said, after he had slinked a safe distance down the jungle path, "Well,

you didn't have to get mad just 'cause you didn't know the answer."

But let me remind you of a couple of dimensions of the problem that we face, because I am convinced it is the most urgent problem on our platter and the one most relevant to our discussion. In the year 1980, the federal budget, as measured by outlays, increased at an annual rate of 17 percent. This was the most dramatic rate of increase that we have ever had at any time in our nation's fiscal history. And it was characteristic of a pattern that had continued for a decade, with the federal government assuming more and more responsibility and growing larger and larger. Federal revenues, which were increasing dramatically, were being driven by two factors. First, bracket creep, which we had always had with the progressive income tax—the kind of bracket creep off the personal income tax which generated 1.6 dollars in federal revenues for every dollar growth in nominal GNP. During 1979 and 1980 we had, for the first time in our nation's history, back-to-back years of double-digit inflation. The Consumer Price Index from January 1979 to December 1980—in that twenty-four-month period—increased by more than 25 percent. Coupled with that were already legislated Social Security tax increases, which were going to push federal revenues as a share of our gross national product to close to 23 percent. This compared with the average federal take of 19 percent of GNP in terms of revenues for the decades of the sixties and the seventies. The great debate in Washington at that time was not about whether we would have a tax cut—both parties were committed to it, as was the Congress—but about what the size of the cut would be. We had what someone once described as an overshooting of the mark in 1981, where a proposal advanced by an administration interested in reducing federal revenues was Christmas-treed by a Congress anxious to get in on the act, and we took federal revenues down in one fell swoop to 17 percent of GNP. In the past four years we have had four federal tax increases, which have brought federal revenues today as a share of GNP to the exact level that they averaged during the sixties and seventies, that is, 19.0 percent of GNP.

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Now let's look at what happened on the spending side of the budget. During the sixties and the seventies, two important phenomena occurred with respect to the federal budget. The first is that we cut in half our share of GNP devoted to defense. During the early 1960s, in the Kennedy administration, we were devoting half of the federal budget and 9.9 or roughly 10 percent of our GNP to defense expenditures. During those two decades we took federal defense spending, as a share of the federal budget, to below 25 percent, and we took it as a share of GNP down to 5.1 percent. The second dramatic thing that happened during those decades with respect to the federal budget is that we had a veritable explosion of federal spending on entitlement programs, largely with respect to income transfer payments to individuals for Social Security, disability, Medicare, and so forth, and an explosion in federal domestic spending, in which the budget more than doubled. Today we have replaced that set of budget priorities in the federal government with a reordering toward defense and a reduction in federal domestic discretionary spending; and we have plateaued entitlements at a much higher level.

So the picture looks something like this. Two growing parts of the federal budget: first, defense, which has gone from 5.1 percent of GNP up to 6.6. We're not back to 10, we're not even halfway back there, but we're up to 6.6, so we've added about 1.5 percent of GNP to defense spending. Second, the biggest growth by far in the federal budget is nonprogrammatic. It's federal—net federal interest on the debt. That has gone from \$49 billion a year in absolute terms in 1980 to \$130 billion today, repre-

senting over 13 percent of the federal budget. In 1965, net federal interest payments were 1.3 percent of GNP. In 1975 they were 1.7 percent, and today, as the fastest growing part of the federal budget, they're 3.4 percent of GNP and rising. So between defense, where we've added 1.5 percent of GNP, and interest payments on the debt, where we've added almost 2 percent of GNP, with a plateau of federal entitlement spending at 38 percent of the federal budget—about 9.5 percent of GNP—we've had a big cut in federal domestic discretionary spending.

We can't do anything about net interest in the short term; that's 3.4 percent. If you don't allow for any more growth in defense and you leave it at 6.6 percent, the two of those add up to 10 percent of GNP. And unless you're prepared to go in and whack away at entitlements—this is AFDC, food stamps (more than we have already), Social Security, disability, Medicare, and you assume that you can contain Medicare where it is—you've added another 9.5 percent of GNP. If the federal government did nothing else—just paid the interest on the debt, kept defense at current levels, and federal entitlement program spending—you're at 19.5 percent of GNP without anything else. Now the situation in fact is that we're spending 24.8 percent of GNP and we're taking in 19. That means we're currently running deficits today for fiscal '85 of 5.8 percent of GNP. At the same time, we have states that have shown the resilience John Shannon talked about—states that have made the difficult decisions, that have put their fiscal houses in remarkable order. It is truly amazing to see what many states have done in view of the fiscal situation they have faced. We now have states in the aggregate running a surplus of something like \$34 to \$40 billion. Others here know the figures much more precisely than I do. But it is truly remarkable what has happened.

Now I want to leave with you two thoughts, in addition to my simple conviction that there is no more food at the federal trough, only deficits. I think it's mind-boggling if you step back for a minute and think of the federal government having persisted with general revenue sharing as long as it has when it is running budget deficits on the order of \$200 billion a year, sharing money with entities which in the aggregate are running surpluses. But putting that aside, the two thoughts are as follows. The first one has been alluded to by other speakers. There is an almost instinctive reaction on the part of policymakers, when you are pulling out or cutting spending programs, to try to accomplish the same objectives through other means, and the principal alternative means is through mandating or regulating the activity. The explosion in federal regulation that has occurred over the past ten years is in part the result of various attempts to cope with this budget situation. This was not the first administration to discover that federal spending was racing ahead at rates and levels that were unsustainable. And I think this accounts to a great extent for the direction that the Congress and the executive branch and the courts have moved in—as we have heard discussed today—that is, into spending more and more time and devoting more and more effort to telling states what to do. I view that as an unfortunate development. We have in the White House an individual who spent eight years of his life running a state government, who believes very strongly in the capacities of state governments, and who, while he is able to devote only a fraction of his time to such matters, has—in the instances where I have been present—constantly urged federal officials to adopt measures that would be less intrusive in terms of telling states what to do. I think the appointment of Otis Bowen, the former governor of Indiana, as

secretary of health and human services, resulted largely from the president's realization that this is one of the federal agencies that does the most in the way of regulating the states, and he wants someone in there who's sympathetic to his belief that the federal government ought to be playing a less intrusive role. The second and last thought I would like to share with you is that I am convinced, as is David Walker and, I guess, all of the previous speakers, that individuals and institutions more frequently than not underestimate their capacity to make adjustments and change. The reason for this phenomenon, which we see in our personal lives as well as in the institutions with which we are associated, is that most change and adjustment is inconvenient, and often difficult. And therefore we tend to resist it, especially if we believe there is an alternative. Our forum today suggests that there is now no alternative but to bring the federal fiscal crisis—papered over for the past few years by a tremendous inflow of foreign capital from abroad—to an end, and that people recognize this. And we will not bring this about without a good deal of change and adjustment and some sacrifice. On that happy note, I'm delighted to conclude my remarks.

Notes

1. *Massachusetts v. Mellon*, 262 U.S. 447, 1923.
2. For an explanation of the *Garcia* decision, see p. 33 of the previous article, "De Facto New Federalism: Phase II?" by John Shannon.