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Devolutionary Federalism and Elazar's Typology: The Arkansas Response to Reagan's New Federalism

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This article examines the relationship between the federal and state governments with regard to the Reagan administration's New Federalism. The underlying concern centers on the financial relationship among governments portrayed by Elazar's typology of federal aid. The focus of this investigation is directed toward the adjustments being made by the states to accommodate the financial and administrative changes occurring on the national level, as illustrated by the case of Arkansas. The analysis centers on two questions: 1) Has the New Federalism initiative achieved Reagan's goals of decentralizing governmental authority back to the states? 2) Has a major redirection in the federal system been achieved by reducing the federal financial obligation in the intergovernmental system? The changes being made in the federal system, as reflected by the adjustments occurring among the states, may signal an important realignment of federalism.

The Reagan administration came to power with a commitment to redirect more control of decisionmaking and financial responsibility back to the states. Reagan's New Federalism aims to reduce spending by the national government and to return administrative control of many domestic programs to state and local governments. Administration attention has also been focused on efforts to reduce paperwork, deregulate existing federal laws, and encourage the private sector to participate in public problem-solving. This article will describe the effects of the Reagan initiatives on Arkansas, with special emphasis on financial and political adjustments being made by states and localities across the nation.

A TYPOLOGY OF FEDERAL AID

Daniel J. Elazar has classified federal aid into three categories with respect to the influence or leverage such assistance provides federal officials over decisions made by state and local officials:

> *The Federal Government-As-Servant Theory.* Uncle Sam becomes a conduit, utilizing the superior revenue-raising powers of the federal government to funnel money back to the states and their subdivisions without dictating the uses to which the aid is to be put beyond setting certain very broad limits.
>
> *The National Uniformity Theory.* The goal of federal aid should be to establish

> uniform conditions throughout the country. Federal funds should be utilized to minimize state and local discretionary action.
>
> *The Local Right-National Interest Theory.* Those who espouse this position are prepared to acknowledge the existence of a substantial measure of legitimate distinctiveness in the states and localities and to affirm their constitutional right to preserve that distinctiveness. At the same time, they are equally prepared to recognize the existence of a national interest in securing the implementation of certain programs or the establishment of certain nationwide standards.[1]

Elazar suggested that federal aid was justified largely by a dependence on the Servant theory during the nineteenth century. The Local Right-National Interest position prevailed through much of the twentieth century, while more recently, the Uniformity theory seems to have been in vogue (circa 1972). A reliance on the Uniformity theory is viewed as problematic by Elazar. In the early days of the republic, many observers claimed that a concentration of authority and fiscal responsibility in the federal government would reduce competition and conflict among various interests for resources and programs. Elazar suggests that those programs which have developed according to the Uniformity theory also have the most administrative and political problems.

The "centrification" effect described in Elazar's warning seems to have come to maturity during the 1960s and 1970s. As Jimmy Carter left the presidency, Reagan promised to promote a decentralization of administrative authority and, thus, a movement toward the Local Right-National Interest theory and away from the Uniformity theory. Where would Reagan's policies put us in Elazar's typology? Has Reagan achieved his goal of reinstating a "states' rights" perspective? If so, what will be the effects on federalism, as reflected in Arkansas?

THE REAGAN INITIATIVE

Upon assuming office, the Reagan administration quickly introduced legislation to give the federal relationship a greater "states' rights" emphasis. The multi-stage plan, although very successful in 1981-1982, was drastically revamped due to the failures of the 1983-1984 proposals. Consolidation of regulation-bound categorical aid, coupled with federal cost-reduction measures, was the focus of Reagan's 1982-1987 budget requests. The number of grants available from federal sources was reduced from 428 grants in 1980 to 328 in 1985.[2]

Categorical aid, which had been targeted for substantial reductions by the

[1]Daniel J. Elazar, "Fiscal Questions and Political Answers in Intergovernmental Finance," *Public Administration Review* 32 (September/October 1972): 471–478.

[2]Office of Management and Budget, "Federal Aid to State and Local Government," *Budget of the U.S. Government: Special Analysis* (Washington, D.C.: U.S. Government Printing Office, 1986). An alternative count by the U.S. Advisory Commission on Intergovernmental Relations shows 534 categorical grants in 1981, 392 in 1984, and 422 in 1987. See *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1987* (Washington, D.C.: ACIR, August 1987).

administration, has remained at a fairly constant percentage of total federal aid to the states. Broad-based aid climbed slightly through 1983, but has declined since then. This shift toward general purpose aid would be even more notable except that General Revenue Sharing (GRS), as a percentage of total aid dollars, declined steadily during the same period and was terminated in the FY 1987 federal budget (see Table 1). The trend in the federal aid system

TABLE 1
Federal Grants-in-Aid To States

	Percent of total grant outlays by year						
Categories	**1980**	**1983**	**1984**	**1985**	**1986**	**1987 (est.)**	**1988 (est.)**
General purpose grants (GRS & other aid)	9.4	7.0	6.9	6.5	6.4	2.2	1.6
Broad-based grants	11.3	13.9	13.3	13.3	11.9	12.2	13.2
Other grants (categorical aid)	79.3	79.1	79.8	80.2	81.7	85.6	85.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: "Federal Aid to State and Local Governments," *Special Analyses: Budget of the U.S. Government* (Washington, D.C.: U.S. Government Printing Office, fiscal years 1984–1988).

appears to be oriented toward general purpose aid, but dollar amounts have not been committed to make that changeover readily observable. In fact, reductions in aid along with decreased emphasis on regulatory procedures are much more apparent than the shift toward block grants.

Federal loans, grants-in-aid, and revenue sharing gradually increased during the 1982–1983 period, but have declined since then, as indicated in Table 2. Despite Reagan's proposals, categorical aid still accounts for about 80 percent of all federal assistance. The move toward general forms of aid has reduced the number of grant programs considerably, but federal expenditures continued to climb through FY 1985.

Executive proposals in both the FY 1986 and FY 1987 budget proposals turned more toward cost reduction and deficit control measures within the federal government, although with an obvious "states' rights" orientation.

> Federal grant-in-aid outlays, which are estimated to be $108.8 billion in 1986, are projected to decline to $99.1 billion in 1987. These reductions reflect the administration's efforts to restrain federal spending and to reduce Federal involvement in activities that are primarily state and local responsibilities.[3]

[3]Office of Management and Budget, "Federal Aid to State and Local Government," *Budget of the U.S. Government: Special Analysis* (Washington, D.C.: U.S. Government Printing Office, 1986 and 1987). Similar language begins both FY 1986 and FY 1987 analysis reports.

TABLE 2
Federal Aid by Major Type, 1982-1987
(in millions of dollars)

Type of aid	1982	1983	1985	1987 (est.)	1988 (est.)
Loans-net	64	354	196	191	99
Grants-in-aid	81,684	86,518	105,897	109,900	106,300
Categorical	70,202	73,594	84,982	94,100	90,500
Block	11,482	12,924	14,071	13,400	14,100
Shared revenues	6,510	6,495	6,844	2,400	1,700
Total	88,258	93,367	112,937	110,091	106,399

SOURCE: "Federal Aid to State and Local Governments, *Special Analyses: Budget of the U.S. Government* (Washington, D.C.: U.S. Government Printing Office, fiscal years 1986–1988). Table concept inspired by Deil S. Wright.

The Reagan administration's FY 1987 proposal offered a number of significant financial and programmatic changes affecting state and local governments, such as termination of General Revenue Sharing, urban development action grants (UDAG), work incentive programs (WIN), and the community services block grant, plus significant reductions in Medicaid, mass transit programs, and the sharing of timber and mineral receipts.[4]

A CHANGE IN STRATEGY

Although success has been limited, President Reagan has made considerable changes in the intergovernmental system. General purpose support, though considerably less than categorical aid, has increased during his term in office. In 1984, regulatory procedures were lessened and state administrators were given more overall control. The administration has deemphasized the term block grant in favor of a less controversial term—a consolidated grant. Instead of creating a "block" designation, the administration has sought to place formerly independent categoricals under an all-encompassing title. Two examples from the FY 1985 budget were: (1) the Older Americans Program, where state categorical programs for home delivered meals, group meals, services for the elderly, and state administrative costs were collapsed under one grant, and (2) the Non-School Program Grants proposal, which combined the child care feeding and summer food services programs into one grant for the states.[5]

The introduction of consolidated grants signals a change in tactics by

[4]Ibid.
[5]Ibid.

Reagan in order to make his proposals more attractive to the Congress and to state and local decisionmakers. The FY 1986 and FY 1987 budget proposals offered similar consolidations in health care, pollution control, and transportation. All of the federal consolidation efforts were presented to state and local officials in the name of program efficiency and administrative flexibility.[6]

The new Reagan strategy seems to offer a compromise between total financial responsibility on the part of the states and absolute administrative control by federal authorities. This strategic shift was caused not only by federal actions and inactions, but also by such matters as significant state protests, the sagging farm economy, increased international competition, and the domestic recession.[7] The administration, after considerable bargaining with the states, appears to be ready to end the "permissive" era of federalism, where "the states' share of authority rested on the permission and permissiveness of the national government."[8] A fiscal link emerged between the federal and state governments, as suggested by Elazar's description of his Uniformity theory of federalism during the late 1960s and the 1970s. During this period, federal aid came to be viewed as a resource that could provide *extra* services to the state residents without raising local taxes.[9] However, what was once viewed by the states as a source of extras, soon came to be viewed as an essential supplemental source of revenue.

Federal aid to the states now comprises about 25 percent of total state revenues. As federal support has declined, however, state and local governments have increased taxes and developed other revenue sources to attempt to offset federal aid reductions. Nonetheless, increased state expenditures have not completely replaced lost federal dollars. John Shannon suggests that "the old brand of affluent federalism which began at the end of the Korean War and ended in 1978" has been replaced by a "new brand of austere federalism (creeping fiscal decentralization)."[10]

Shannon went further to point out the significance of state and local resiliency in dealing with a host of changes in the intergovernmental arena.

> Events in 1984 also obscured a badly underrated virtue of contemporary federalism: the remarkable resiliency of state and local governments [to deal with] a series of powerful jolts: double digit inflation, a tax payers' revolt, two severe recessions, and a sustained slowdown in federal aid flows. . . . Public acceptance of repeated state-local tax increases is especially revealing. It proves that even in the post-Proposition 13 era, the public still accepts tax hikes

[6]Office of Management and Budget, FY 1986 and FY 1987 budgets of the U.S. government.

[7]See J. Edwin Benton, "Economic Considerations and Reagan's New Federalism Swap Proposals," *Publius: The Journal of Federalism* 16 (Spring 1986): 17–32 for an excellent summary of the struggle between the states and the federal government concerning the Reagan proposals.

[8]Michael D. Reagan and John Sanzone, *The New Federalism* (2nd ed.; New York: Oxford University Press, 1981), pp. 173–175.

[9]Thomas R. Dye, *Understanding Public Policy* (4th ed.; Englewood Cliffs, N.J.: Prentice-Hall, 1981), p. 255.

[10]John Shannon, "1984—Not A Good Fiscal Year for Big Brother," *Intergovernmental Perspective* 11 (Winter 1985): 4–5.

when there is convincing evidence that expenditure programs have been pruned and that tax increases are necessary to maintain program standards.[11]

The substantial changes described by Shannon and others would seem to suggest a significant movement away from National Uniformity toward the Local Right-National Interest perspective. Public confidence in the performance of states and localities in 1984 was greater than in that of the federal government.[12] State spending (from own sources) increased from $175.6 billion (FY 1981) to $220.4 billion (FY 1985) and local expenditures increased from $118.9 billion to $157.8 billion for the same period, suggesting "that state and local officials no longer view Uncle Sam as Santa Claus."[13]

FISCAL DEPENDENCE: THE ARKANSAS CASE

Arkansas increased domestic spending approximately 623 percent during 1966-1984.[14] From 1966 to 1984 federal aid constituted, on average, 32 percent of Arkansas' total general revenue. State spending has continued to increase. Per capita income rose at an average of 11.0 percent between 1974-1984, while total expenditures increased by 13 percent annually.[15]

Several factors have contributed to this increased rate of spending. Population growth has caused an increased demand for public services. Expenditures have also escalated to keep up with inflation. Further, spending has increased because of an expansion in the economy, which has made it possible to increase expenditures without raising new state taxes. This last explanation for increased expenditures must be considered in relation to the low level of public services supplied by the government.

Spending increased at a staggering rate during 1960-1983, especially in four vital service areas: public welfare (760 percent), education (1,585 percent), highways (363 percent), and health and hospitals (1,988 percent).[16] These four service areas constitute approximately 73 percent of Arkansas' annual expenditures. Federal aid has provided a substantial percentage of the total costs of providing critical public services. From 1960 to 1984, federal aid constituted 70 percent of social welfare spending, 17 percent of educational expenses, approximately 32 percent of highway costs, and 27 percent of health and hospital charges.[17]

Arkansas has concentrated its own domestic expenditures in highways and

[11]Ibid., 6-7.

[12]U.S. Advisory Commission on Intergovernmental Relations, *Changing Public Attitudes on Governments and Taxes* (Washington, D.C.: ACIR, 1984), p. 1.

[13]David B. Walker, "New Federalism 1981-1986," *SIAM-Intergovernmental News* 9 (Winter 1986): 1 and 4.

[14]U.S. Bureau of the Census, *Statistical Abstract of the U.S.* (106th ed.; Washington, D.C.: U.S. Department of Commerce, 1986).

[15]R. Lawson Veasey and W. David Moody, "New Federalism, Second Edition," *Arkansas Political Science Journal* 4 (1984): 24, and Bureau of the Census, 1986.

[16]Bureau of the Census, 1967-1986.

[17]Bureau of the Census, 1961-1986.

education, while social welfare services have lagged behind. Local governments bear the burden of the costs for health and hospitals, with the federal government contributing an increasing percentage of the total cost of welfare services. The breakdown of the expenditure pattern (see Table 3) clearly indicates Arkansas' reliance on federal assistance.

TABLE 3
Arkansas General Expenditures
Federal, State, and Local Share of Finances, 1980-1985

State and local general expenditures from all sources

	Total (millions)		Percent financed by					
			Federal		State		Local	
	1980-1981	1984-1985	1980-1981	1984-1985	1980-1981	1984-1985	1980-1981	1984-1985
General	2,980.0	3,998.4	30.6	24.0	46.4	49.0	23.0	27.0
Local education	1,193.0	1,101.1	14.6	10.5	59.8	60.8	25.6	28.8
Public welfare	363.0	467.0	83.0	82.0	16.5	16.0	0.6	1.0
Health and hospitals	294.0	398.1	8.4	13.0	42.9	44.0	48.7	43.0
Highways	415.0	412.7	35.7	27.0	57.4	61.0	12.9	12.0

SOURCE: U.S. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, 1981-1982, 1985-1986, and 1987.

To add to Arkansas' problems, the formulas used for distributing federal aid are being changed to reflect a greater need in the Snowbelt and an improving economic picture in the Sunbelt. The shift in federal support has been a fairly recent phenomenon, beginning in 1976.[18] As resource bases, population, and industry moved to the South and Southwest during the late 1970s and early 1980s, federal aid was directed more toward the Snowbelt states[19] (see Table 4).

THE FEDERAL CHALLENGE AND THE ARKANSAS RESPONSE

Arkansas is caught in the midst of the significant changeover in federal funding priorities. Federal aid reductions are forcing Arkansas to reevaluate cur-

[18]Daniel J. Elazar, *American Federalism: A View From the States* (3rd ed.; New York: Harper and Row, 1984), pp. 97-98. Also, see Michael Lawson, "A Fiscal Note: The Flow of Federal Funds," *Intergovernmental Perspective* 11 (Spring/Summer 1985): 18-19.
[19]Ibid.

TABLE 4
Estimated Federal Aid to Regions of the Nation

	Selected fiscal years, 1952-1986[a]				
Region	**1986**	**1982-1984**	**1974-1976**	**1969-1971**	**1965-1967**
United States	1.00	1.00	1.00	1.00	1.00
New England	1.17	1.09	1.05	1.00	1.01
Mideast	1.10	.94[b]	1.32	1.23	1.01
Great Lakes	.81	.80	.74	.70	.66
Plains	1.04	1.05	1.05	1.09	1.35
Southeast	.98	1.20	1.19	1.26	1.37
Southwest	.92	1.15	1.21	1.38	1.43
Rocky Mountain	1.01	1.03	1.11	1.20	1.37
Far West	1.10	1.06	1.25	1.37	1.84

SOURCE: U.S. Advisory Commission on Intergovernmental Relations, *Significant Features on Fiscal Federalism*, 1985–1986 and 1987 editions.

[a]1952–1976 ratios obtained by dividing the estimated percentage of federal expenditures by estimated percentage of federal revenues contributed by residents. 1982–1984 ratios based on U.S. Bureau of the Census, *Federal Expenditures by State*, 1984.

[b]Omit D.C. for 1982–1984. Other states within region remain constant with 1974–1976 amounts.

rent levels of service provision. According to a report released by the American Federation of State, County and Municipal Employees, Arkansas absorbed a $389 million reduction in federal aid from FY 1981 to September 1983.[20] Additional cuts in GRS ($46 million) raised the total loss in federal funds to $435 million for Arkansas through FY 1985.[21] The Reagan administration moved beyond early predictions of a reliance on the Servant concept toward the Local Right–National Interest theory, placing more administrative and financial pressure on the states.

Education

Cuts in federal aid, though significant, have probably had less of an impact on education services in Arkansas compared to the other three major spending areas (as indicated in Table 3). Federal support for education is

[20]Alyson Lagrossa, "Federal Aid to State Cut by $389 Million," *Arkansas Democrat*, 25 January 1984, p. 1A.

[21]Damon Thompson, "Funding Loss To Hit Arkansas Hardest," *Arkansas Democrat*, 2 February 1986, pp. 1A and 8A.

found in Chapters 1 and 2 of the Education Consolidation and Improvement Act (ECIA), Handicapped Aid, and the Child Nutrition Program. With the exception of the initial decreases in Chapters 1 and 2 of ECIA (approximately $9 million), federal aid cuts have not had a major effect on Arkansas because of the state's timely response.[22]

Arkansas, responding with unusual quickness to the changes in federal aid programs, moved to pass substantial revenue increases to offset federal funding reductions. Mahlon Martin, Director of the Arkansas Department of Finance and Administration, viewed the move toward devolutionary federalism in this way:

> The existing thought at the federal level is aimed at transferring many issues back to the states . . . it is apparent that they (local leaders) expected it to involve simply the transfer of federal program funding, at all existing levels, to states along with the flexibility to make programmatic changes as service needs dictated . . . "New Federalism" not only planned the transfer of the policy and program decisions but also proposed to transfer the responsibility for funding the respective programs. With implementation under way, change in the relationship has initially created havoc between the federal government's spending and taxing policies and those of the states.[23]

Although education has always been a concern of state officials, education standards have lagged in Arkansas for many years. The Arkansas legislature met in a special session in 1983 to pass a 1 percent increase in the sales tax (from 3 percent to 4 percent statewide) dedicated to educational improvement. The sales-tax increase generated an additional $107.4 million for the 1984–1985 school year.[24] Although federal education cuts frustrated state officials, the sales-tax increase was passed more in response to the publicly recognized need to provide an equal and quality education than in response to reduced federal aid.[25]

The reaction in Arkansas resulted in more than just financial changes. Included in the 1983 education package, besides the sales-tax increase, was a companion act requiring consolidation of small school districts to increase the quality of curriculum offerings, a teacher competency test requiring minimum standards to be met by educators (one of the first acts of this type in the nation, with Texas implementing the second such test in March 1986), and an increase in the credits required for graduation from high school from 16 to 20.[26] Additionally, the legislature encouraged the inclusion of more

[22]Personal interview with Martha Henry, Assistant Budget Director. Data supplied by the Office of Budget, Arkansas Department of Finance and Administration, 1984–1987.

[23]Mahlon Martin, "Speech Before the Arkansas Chapter of the American Society for Public Administration," 1 August 1984.

[24]Arkansas Department of Finance and Administration, *State of Arkansas 1983–85 Biennial Budget Revision and State of Arkansas 1985–87 Biennial Budget* (Little Rock, Ark.: Capitol Printing-Arkansas Statehouse, 1983-1985 and 1985–1987).

[25]Henry, "Interview," 1984. Also, this information was confirmed by phone interview with the author of the Quality Education Act, Representative Bill Stephens, on 7 January 1987.

[26]Lee Mitgang and Christopher Connell, "South's Strides In Education Put Dead Last: Past

English, mathematics, science, and language classes within the public school curricula.

Similar changes are occurring across the nation, but the southern states have historically been the worst in education funding per capita, education standards, and teacher competency. Today, southern states seem to lead the nation in education reform. Examples include Tennessee's creation of a teacher-pay and career-ladder plan that combines better salaries with accountability; Arkansas' creation of a teacher competency exam followed closely by Texas and Georgia; sales-tax increases dedicated to education passed in Mississippi, South Carolina, Texas, and Arkansas; and comprehensive reform packages passed in Alabama, Florida, Kentucky, Louisiana, North Carolina, and Virginia, as well as the other southern states mentioned previously.[27] Elementary and secondary school spending in the twelve southern states for 1985-1986 was $1.37 billion, an increase of 15.9 percent from the previous year.[28]

Other areas of the nation have followed suit, with major education reforms developing throughout the country, such as curriculum changes under consideration or presently being implemented by all fifty states. About half the states have increased classroom (or learning) time; over forty states have increased the number of hours needed for high school graduation, with fifteen states requiring seniors to pass a competency exam prior to graduation; "master teacher" plans have been developed in more than a dozen states, with seventeen having raised teacher salaries; and nearly 60 percent of the states require new, stricter standards for teacher certification.[29]

Higher education was also included in the Arkansas reform package. The appropriation for colleges and universities was increased by 26 percent in 1984-1985 compared to the 1982-1983 appropriation.[30] That was the fourth largest percentage increase in the nation, placing Arkansas 35th out of the fifty states in the amount of money appropriated per capita for colleges and universities in 1984-1985.[31] Further, encouraged by the Arkansas Department of Higher Education, the legislature earmarked more financial resources for grants and scholarships in mathematics, science, and foreign languages.

Health Care

Health subsidies have changed from categorical program support to block grant aid. The Arkansas Department of Health receives 50 percent of its cost

On The Run," *Arkansas Democrat*, 16 March 1986, pp. 1A, 10A, and 11A.

[27]Please see Mitgang and Connell's six part series, "Southern Schools: A Report Card on Reform." Both are Associated Press education writers. The series ran nationally in March 1986.

[28]Ibid.

[29]Jane Roberts, Jerry Fensterman, and Donald Lief, "States, Localities Continue to Adopt Strategic Policies," *Intergovernmental Perspective* 11 (Winter 1985): 19-29.

[30]M. M. Chambers, "State Support for Higher Education," *The Chronicle of Higher Education*, 31 October 1984, pp. 16-18.

[31]Cynthia Howell, "State Ranked 35th in Education Aid," *Arkansas Democrat*, 6 November 1984, p. 7B.

of operation from federal sources. A number of categorical grants were absorbed into the Preventive Health Services and the Maternal and Child Health block grants. Flexibility in these two blocks has covered many of the costs not fully funded under various categorical programs. In fact, because of time limitations placed on fund expenditures, most programs returned services to pre-cut (1982–1983) levels, rather than awarding funds to new programs.[32]

The major change in levels of health care aid came in Medicare when the federal government issued new reimbursement guidelines on 1 October 1983. The new system, called "prospective payments," will fix reimbursement allocation on the basis of a usual and reasonable cost for each of 467 diagnostic related groups (DRGs).[33] "A fixed amount, and no more, will be paid regardless of length of hospital stay or treatment provided."[34] Other than Medicare, the health care funding has remained fairly stable, although Arkansas elected not to participate in the Primary Care block grant passed by the Congress in 1982. The absorption of categorical grants into block grants has confused procedures, but has caused little change in funding of state programs.

Federal cost-reduction measures, especially with regard to Medicare, stimulated one of the first moves toward "privatization" under the Reagan administration. Arkansas Blue Cross–Blue Shield followed the new "prospective payment" system for Medicare very carefully and initiated its own Prime Care Network (PCN) for the state in 1984. PCN provides 100 percent reimbursement of subscriber costs for DRGs as long as patients see a designated PCN physician who strictly adheres to the PCN usual-reasonable rate structure. The PCN system encompasses all subscribers, not just the elderly. Most states have responded to the Medicare crisis in a similar fashion, "with about two-thirds of the states [requiring] prospective payment (such as DRGs) in their systems."[35]

Medicaid costs soared at nearly twice the rate of state tax revenues in 1981 and 1983 (22 percent compared with 14 percent) with nearly double the number of recipients in 1984 (22.7 million) as there were in 1969. Medicaid costs for the states in 1984 amounted to $17.5 million of the total costs of $38 billion. Nearly all the states, reacting to fiscal stress in 1981–1982, relieved some of the financial pressure covered by Medicaid by increasing criteria for eligibility. Also, the largest cost item under Medicaid, nursing home care, is being addressed through privatization, with eleven states passing legisla-

[32]Henry, "Interview," 1984.

[33]James Scudder, "Medicare's Quest to Remedy Financial Ills Being Felt in Arkansas," *Arkansas Gazette*, 29 September 1984, p. 1B.

[34]Ibid.

[35]Donald Lief, "Health Care: Costly, Controversial," *Intergovernmental Perspective* 11 (Winter 1985): 30–31. Also see Robert Agranoff and Alex N. Pattakos, "Intergovernmental Management: Federal Changes, State Responses, and New State Initiatives," *Publius: The Journal of Federalism* 14 (Summer 1984): 49–84, for more specific analysis of early state reactions to health care policy changes and state managerial strategies.

tion to regulate these facilities. Hospice programs have also increased, with fifteen states creating laws or regulations to deal with care for the elderly and housing for the terminally ill.[36]

States have also made significant commitments to indigent care programs, with Florida and Texas attempting to ensure that the poor have access to high quality health services.[37] State employee health-care benefit contributions have increased drastically since 1984 in such states as Tennessee (74 percent), Mississippi (69 percent), Florida (49 percent), and Utah (47 percent). An effort to curb such cost increases has led twenty-one states to pass "fixed contribution amounts" for premium payments, ten states to require mandatory surgical opinions, and most states to look seriously at self-insurance or participation in Health Maintenance Organizations, which Arkansas health officials are currently considering.[38]

Transportation

Federal funding designated for certain key transportation programs has been eliminated. Federal cuts for additional Primary Highway and Access Control construction programs amounted to a $21 million reduction in federal aid to Arkansas. The passage of the Surface Transportation Assistance Act (STAA) in 1982 provided an additional 5 cents a gallon tax on motor fuels, with the revenues designated for interstate highway and bridge programs (4 cents) and mass transit development (1 cent). Regardless of the estimated $25 million average yearly expenditure in FY 1983 and FY 1984, the need for additional assistance continues to mount. The compounding needs are a direct result of deteriorating pavements, increased vehicle weights, and reduced motor-fuel tax revenue for the states resulting in fewer dollars to match federal aid. Transportation services in Arkansas received considerable cuts in funding due to the redirection of federal support to other areas, excepting interstate and bridge support, which continue to increase.[39]

Federal aid reductions in transportation areas have had a more significant effect on Arkansas. STAA will increase support for interstate and bridge programs, but this aid increase may backfire. Since federal authorities have moved into a potential resource area usually reserved to the states, this action could preclude additional monies being generated by the states. Arkansas entered into a delayed maintenance program in 1981 due to federal reductions in aid. Higher federal contributions to mass transportation have had only a nominal effect on Arkansas because the state is less urban than the average state.

Obviously, the reaction to worsening streets and highways by the general public has not been particularly good. In 1985, the Arkansas General

[36]Ibid.
[37]Denis P. Doyle and Terry W. Hartle, "A Funny Thing Happened On The Way To New Federalism . . . ," *The Washington Post National Weekly Edition*, 2 December 1985, pp. 23–24.
[38]Lief, "Health Care," 31.
[39]Ibid.

Assembly passed an additional 4 cents per gallon tax on gasoline and a 2 cents additional level per gallon on diesel fuel. These taxes were dedicated to the restoration and maintenance of the state road system. Twelve other states increased various motor fuels taxes in 1985. Since 1981, there have been sixty-nine tax increases in the motor fuels category, with only nine states foregoing any sort of increase in that revenue area. Generally, such monies are dedicated to highway and transportation expenditures.[40]

Arkansas authorities allowed the evils of "delayed maintenance" to build up prior to taking such action in an effort to attach blame to federal authorities and lay a foundation for popular support of a tax increase (Governor Bill Clinton vetoed the bill, but was happy to be overridden). These additional taxes could generate approximately $50 million per year in new money for the Transportation Department.[41] The taxes earmarked for transportation in Arkansas, as well as in other states, may be in jeopardy, however, because of the recent softening in the economy.

Welfare

The service area hit hardest by federal aid reductions has been Arkansas' welfare programs. Between 1960 and 1980 federal welfare support accounted for approximately 71 percent of the total cost of welfare services. Proposed cuts in the FY 1987 budget called for $21.7 billion in reductions for social programs. Approximately $8 billion of the $21.7 billion in cuts and the elimination of fourteen programs was to fall disproportionately on the poor.[42] In fact, "measured against the level of current services, the cuts amount to 16.1 percent of the aid to state and local governments and 1.8 percent of the direct payments to individuals."

Obviously, welfare and health care are tied closely. Changes in the welfare and health care fields have involved a tightening of the regulations and eligibility requirements for participation in federal support programs. The figures in Table 5 reflect many of the early changes made in the social services area during the Reagan era. Arkansas experienced a substantial reduction in AFDC payments in FY 1982. Although payments began to rebound in FY 1984, current administration proposals would suggest that further reductions are forthcoming under Gramm-Rudman-Hollings and Reagan's FY 1988 budget proposal. Further, federal housing support and aid for deteriorating urban communities (CDBG, SCDBG, and UDAG) may be subject to massive cuts or termination.

Arkansas' dependence on federal support for public welfare (Table 3 suggests an 80 percent average federal contribution) has proven to be the most troublesome problem for state decisionmakers. The bottom line is that Arkan-

[40]U.S. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism 1985–86 Edition* (Washington, D.C.: ACIR, February 1986), p. 74.

[41]Henry, "Interview," 1985.

[42]Matt Yancey, "Cuts in Social-Program Budgets Could Cause Deficits in 39 States," *Log Cabin Democrat*, 26 February 1986, pp. 1A and 10A.

TABLE 5
Federal Welfare and Health Aid to Arkansas
(in millions of actual dollars)

	Fiscal years						
Programs	**1980**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987 (est.)**
AFDC	49.4	37.6	34.2	37.1	39.5	47.8	49.0
Total Medicaid	237.2	286.9	322.6	357.5	366.6	402.3	429.0
Nursing homes	118.7	151.1	161.3	164.4	174.1	182.4	190.0
Prescription drug	20.5	21.6	26.2	33.0	37.4	42.1	45.0
Hospital & medical	98.0	114.2	135.1	160.1	155.1	177.8	194.0

SOURCE: Arkansas Department of Finance and Administration, 1987.

sas provides the minimum required contribution to meet federal requirements, or about 18 percent of total provided benefits. Although national and Arkansas welfare authorities have implemented numerous cost-reduction measures since 1981, Arkansas has not developed a statewide plan of response that differs substantially from nationwide cost-cutting trends, probably because of the state's primary focus on education and transportation issues. Arkansas' concern for the needy was essentially stated by Diane Blair and Joan Roberts in 1981:

> While Arkansas would seem to have much more to lose than many states from the elimination or curtailment of federal programs, the needy who would actually feel the first losses were either unaware of how the rhetoric of Reaganomics would translate into personal hardship, or were politically powerless to affect the state decisions being made. While progressive governors in Arkansas have occasionally championed the "have nots," the disadvantaged of Arkansas have not yet generated and sustained effective state political organizations of their own.[43]

As mentioned in the review of health-care policy, any number of states have initiated comprehensive studies in their health and welfare programs. Many states are altering their indigent care policies, from pooling revenue in New York and Florida to increasing charitable care/debt allowances in Maryland, Massachusetts, and New Jersey.[44] In the six broad service functions of income maintenance, employment and training, social services, housing, education, and health, where approximately two-thirds of all federal

[43]Diane K. Blair and Joan Roberts, "Acquiescent Arkansas: The 1981 Response to Reaganomics and the New Federalism," *Publius: Annual Review of American Federalism, 1981* (Lanham, Md.: University Press of America, 1983), pp. 163–174.

[44]Lief, "Health Care," 31.

assistance is located, there are indications that "new human services coalitions and alliances are being formed."[45] Robert Agranoff and Alex Pattakos suggested that "the states' responses to the Reagan initiatives . . . in both human services and non-human services areas, were largely . . . of cautious accommodation made at the margins of their policy and program operations rather than to seek out comprehensive solutions to the various problems."[46] That statement, made in 1983, largely holds true for state governments today.

POLITICS AND HARD CHOICES

In the late 1980s, Arkansas is faced with a significant public policy challenge. Arkansas has one of the highest illiteracy rates in the country. About 45 percent of the adult population has not graduated from high school, and only 10 percent has received a college degree. The national average of high school graduates going to college is 60 percent; in Arkansas it is only 38 percent.[47] The median family income in Arkansas is approximately $1,700 a year below the average of the lowest ten states in the country. There has been less than a 3 percent level of unemployment among college graduates in Arkansas as compared to an 18 percent rate among people without high school diplomas.[48]

Education and economic development head the list of priorities for change in Arkansas. Governor Bill Clinton has had a demonstrable effect on initiating policy change in the state. Clinton, after failing to win reelection after his 1979–1980 term, rebounded to defeat Republican Governor Frank White in 1982. White, riding into office on Reagan's coattails, failed to bring promised economic development to the state. Clinton based his political future on his plan to revamp Arkansas' antiquated education system. The legislature passed a series of educational standards acts in 1983, committing the state to a long-term upgrading of both public and higher education.

For years the South relied almost exclusively on low tax rates and low, non-union wages to lure industry. Today, major industrial developers seek quality services in every area, particularly in education and skill training programs. The Arkansas case, along with massive reforms in the Texas system, indicate the serious nature of the reform movement.[49]

> States have always played a major role in education. But over the last decade, the state role has increased while local and federal efforts have diminished.

[45]Keith Mueller and John Comer, "Disinnovation in the American States: Policy Toward Health Systems Agencies," *Journal of Sociology and Social Welfare* 10 (June 1983): 189–202.

[46]Agranoff, "Intergovernmental Management," 57–58.

[47]Dave Wannemacher, "UCA Chief Faults Arkansas for Fiscal Straits," *Arkansas Democrat*, 21 September 1985, pp. 1B and 6B.

[48]Ibid.

[49]Doyle and Hartle, "A Funny Thing," p. 24, and Mitgang and Connell, "South's Strides," p. 6A.

> Between 1973 and 1983, the state share of education expenditures increased in 45 of 50 states. In Washington it climbed from 52 to 80 percent; in Indiana from 34 to 63 percent and in California from 38 to 75 percent. State aid now accounts for more than 60 percent of school revenues in 14 states.[50]

Clinton and the Arkansas legislature, riding the wave of popular support surrounding efforts to improve the socioeconomic quality of the state, next attacked the problem of securing jobs for Arkansans. In 1985, the legislature passed Clinton's program to upgrade the attractiveness of the state to potential investors. The legislature enacted thirty separate laws dealing with a variety of economic issues, ranging from expanding the responsibilities of the Arkansas Industrial Development Commission to providing additional incentives for businesses by amending the Enterprise Zone Act of 1983. Success or failure of the economic package remains to be seen. However, early returns indicate that the Arkansas Enterprise Zone Program has created over 5,000 new jobs in the state and stimulated approximately $414 million in new investment since December 1983.[51]

Other states are also attempting to upgrade economic development opportunities. Twenty-seven states have enacted some form of enterprise zone program, which has generated about $3.5 billion in new investment and created or saved approximately 100,000 jobs.[52] More than twenty states are involved in venture capital development plans; ten states have developed public-private lender commitment programs; and many other states are moving ahead with research parks, incubators, and expanded industrial development bonding.[53]

The states are also investigating a wide range of revenue-generating ideas, such as contingency or "rainy day" funds, which have been established in thirty-two states as shelters against revenue shortfalls. From Massachusetts to Hawaii state tax systems are under critical review; twenty-seven states, plus the District of Columbia, now have state lotteries; and twenty-five states have increased physical infrastructure borrowing and tax measures since 1983. Arkansas is considering a number of revenue-generating policies with which to counter current financial problems caused by the downturn in the farming and industrial sectors of the economy.

Apparently, Arkansas government is attempting to rebound from earlier federal aid cutbacks so as to achieve a goal of fiscal and programmatic responsibility never before seen in the state. Arkansas has assumed additional tax burdens in two areas (education and highways), thrust additional costs on

[50]Ibid.

[51]Oscar Rodriguez, Director of the Arkansas Enterprise Zone Program, "Comments Made Before the NASDA Conference on Enterprise Zones," concerning the Arkansas Enterprise Zone Program under the Arkansas Industrial Development Commission, 4 October 1985.

[52]R. Lawson Veasey and Hayward D. Horton, "The States Forge Ahead with Enterprise Zones: Program Maturation and Administrative Adjustment" (Paper presented at the American Society for Public Administration National Conference, Anaheim, California, 13-16 April 1986).

[53]Roberts, "States, Localities," 19-24.

the private sector for health and hospitals, and cut clientele services in the welfare area.[54]

CONCLUSION

Intergovernmental relations is experiencing a directional adjustment similar in importance to changes that occurred in the 1930s (increased federal aid) and the 1960s (coercive federalism). The current alteration in direction, toward increased fiscal and administrative responsibility for the states, may be the most significant federal reorientation since the administration of Franklin D. Roosevelt. The states are being challenged "to put up, or to shut up." The problems encountered by Arkansas in its attempt to deal with these federal changes appear similar to situations being encountered by most of the states.

The typology developed by Elazar is instructive in its description of the current circumstances surrounding intergovernmental relationships. The fiscal and regulatory changes made by the federal government appeared to be swinging the nation toward the Servant model in 1981-1982. The shocking discovery for the states was the realization that the Reagan administration was much more committed to the Local Right-National Interest theory, whereby the states would carry a greater share of the financial load. The Reagan initiative has been watered down to a degree, but the states are beginning to realize the significance of the alterations being made in the intergovernmental relationship.

Reagan's New Federalism would appear to be quite different than the Uniformity position of the 1960s and 1970s, as well as a decided departure from what many state officials hoped would be a commitment to the Servant position. Possibly, it would strain the bounds of Elazar's typology to suggest that the federal relationship has evolved into a pattern best described and defined by the National Interest-Local Right model. The Reagan administration may not be interested in establishing nationwide standards with regard to certain programs, but may encourage more state and local programmatic diversity.

Elazar and other observers of federalism might suggest another explanation: It is possible that the combination of massive federal budget deficits, which have developed since 1972, and the Reagan administration's devolutionary philosophy, point to a fourth theory, or at least an important variant on Elazar's third type, namely, a National Interest-Local *Responsibility* theory.[55]

[54] I would like to thank Diane K. Blair for this observation.
[55] Ibid.