

THE PRESIDENT'S FEDERALISM INITIATIVE:
BASIC FRAMEWORK

JANUARY 26, 1982
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INTRODUCTION

THE PRESIDENT IS OUTLINING A FRAMEWORK FOR A MAJOR FEDERALISM INITIATIVE. HE PLANS TO SEND ENABLING LEGISLATION TO CONGRESS IN A FEW WEEKS. BEGINNING TOMORROW, HE WILL WORK WITH STATE AND LOCAL OFFICIALS AND CONGRESS TO DEVELOP THE NECESSARY PROGRAM DESIGNS.

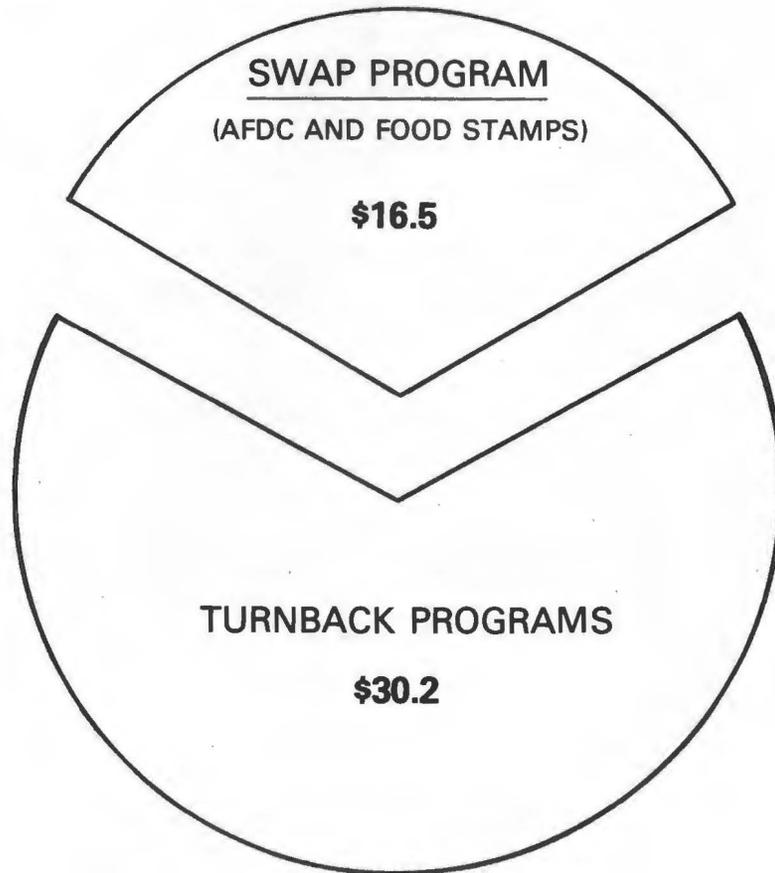
I. BASIC FEATURES

- \$50 BILLION TRANSFER OF FEDERAL PROGRAMS TO STATES OVER 8-YEAR PHASED TRANSITION—WITH EQUIVALENT REVENUE SOURCES. TWO MAJOR COMPONENTS INCLUDE:
 - SWAP COMPONENT—FEDERAL TAKE-OVER OF MEDICAID IN SWAP FOR STATE TAKE-OVER OF FOOD STAMPS AND AFDC—A \$20 BILLION EXCHANGE;
 - TURNBACK COMPONENT—MORE THAN 40 FEDERAL EDUCATION, TRANSPORTATION, COMMUNITY DEVELOPMENT AND SOCIAL SERVICE PROGRAMS TURNED BACK TO STATES—WITH \$28 BILLION FEDERALISM TRUST FUND TO FINANCE THEM.

FEDERALISM PROGRAM — FY '84 LEVEL

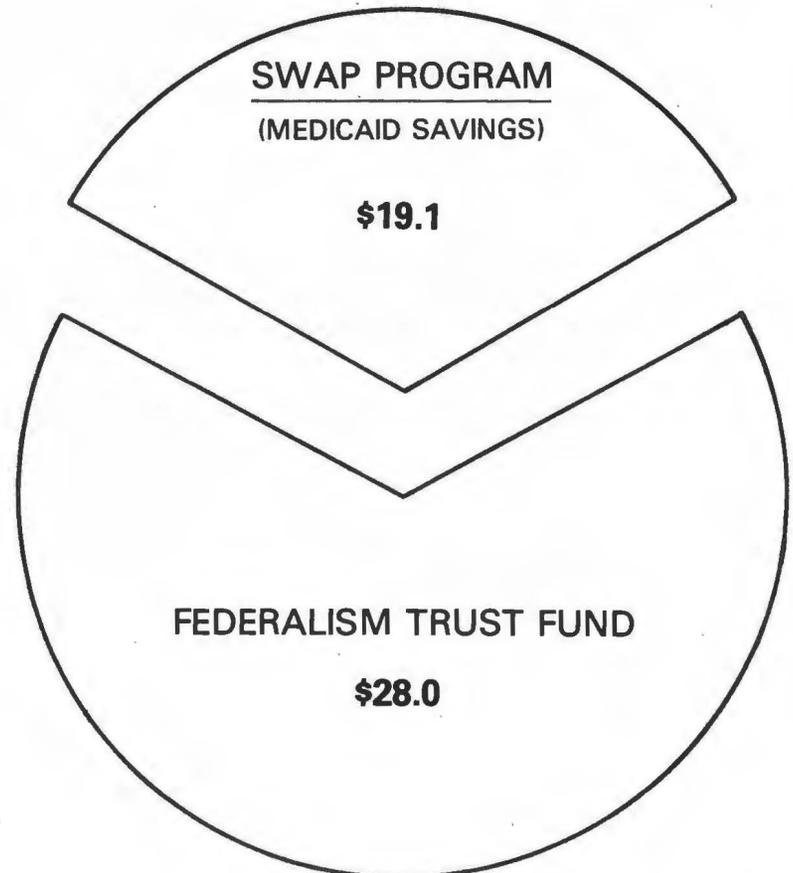
(BILLIONS OF DOLLARS)

STATE/LOCAL PROGRAMS AND COSTS ABSORBED. . .



TOTAL: \$46.7

REVENUE SOURCES TO FINANCE THEM

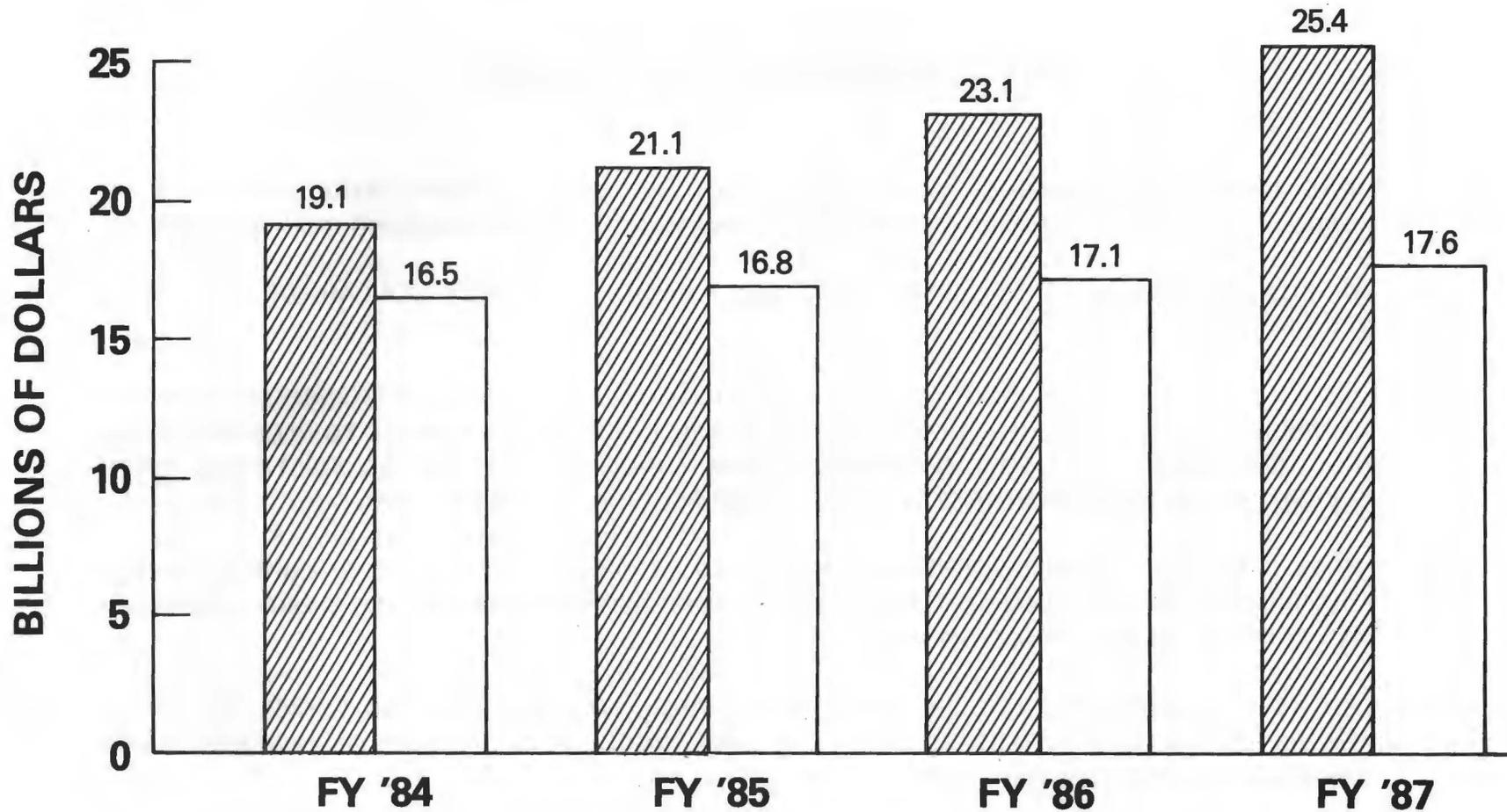


TOTAL: \$47.1

II. MEDICAID/PUBLIC ASSISTANCE SWAP

- \$20 BILLION EXCHANGE OF PROGRAM RESPONSIBILITIES:
 - FEDERAL GOVERNMENT ASSUMES MEDICAL ASSISTANCE FUNCTION;
 - STATE GOVERNMENTS ASSUME INCOME ASSISTANCE FUNCTION FOR NON-ELDERLY.
- MEDICAID FULLY FEDERALIZED IN FY '84. WILL BE RESTRUCTURED AS PART OF INTEGRATED FEDERAL COST CONTAINMENT INITIATIVE TO LIMIT SKYROCKETING GROWTH OF MEDICARE AND MEDICAID PROGRAMS.
- STATES ASSUME FULL RESPONSIBILITY FOR AFDC AND FOOD STAMPS IN FY '84—WITH FLEXIBLE MAINTENANCE OF BENEFITS REQUIREMENT FOR NEW STATE CASH ASSISTANCE PROGRAM.
- STATE MEDICAID SAVINGS GROW FROM \$19 BILLION IN FY '84 TO \$25 BILLION BY FY '87—EXCEEDING THE COSTS OF AFDC/FOOD STAMPS AND THEREBY FREEING-UP INCREASING PORTION OF THEIR OWN TAX BASES.

SWAP COMPONENT OF FEDERALISM INITIATIVE



 MEDICAID SAVINGS TO STATES

 AFDC/FOOD STAMP COSTS ABSORBED BY STATES

III. TURNBACK PROGRAMS

- MORE THAN 40 CATEGORICAL AND BLOCK GRANT PROGRAMS TURNED BACK TO STATES ON VOLUNTARY BASIS IN PHASE I (FY'84-87) AND ON PERMANENT BASIS BEGINNING IN FY'88 (PHASE II).
- \$28 BILLION ANNUAL FEDERALISM TRUST FUND PROVIDES NEARLY DOLLAR-FOR-DOLLAR FINANCING IN PHASE I.
- PHASE I: FY'84-87. TRUST FUND ALLOCATIONS TO STATES BASED ON HISTORIC PROGRAM SHARES (FY'79-81) MODIFIED BY GAIN OR LOSS ON SWAP. STATE FUNDS MAY BE APPLIED TO FEDERAL GRANT PROGRAMS WHICH CONTINUE IN CURRENT FORM THROUGH FY'87—OR AS NO-STRINGS SUPER REVENUE-SHARING PAYMENT IF STATES OPT OUT OF FEDERAL PROGRAMS EARLY.
- PHASE II: FY'88-91. GRANT PROGRAMS TERMINATED AT FEDERAL LEVEL. TRUST FUND PAYMENTS AND FEDERAL EXCISE TAXES DECLINE 25% EACH YEAR—WITH STATES FREE TO SUBSTITUTE THEIR OWN TAXES OR REDUCE PROGRAM COSTS.
- END RESULT. MORE THAN 40 FEDERAL GRANT PROGRAMS AND EXISTING EXCISE TAX BASES RETURNED COMPLETELY TO STATES. FEDERAL GOVERNMENT FREE TO FOCUS ON FEWER ISSUES OF GREATER NATIONAL SIGNIFICANCE.

IV. FEDERAL GRANT PROGRAMS INCLUDED IN TURNBACK

- TURNBACK CONSISTS OF FEDERAL CATEGORICAL AND BLOCK GRANT PROGRAMS ORIENTED TOWARD LOCAL COMMUNITY NEED AND INDIVIDUAL SERVICE DELIVERY—ACTIVITIES BEST SUITED FOR STATE/LOCAL MANAGEMENT DISCRETION. PROPOSED MAJOR PROGRAMS WOULD INCLUDE:
 - NON-INTERSTATE HIGHWAYS, AIRPORTS AND LOCAL MASS TRANSIT;
 - SEWER TREATMENT GRANTS, UDAG, CDBG, AND RURAL WATER/SEWER AND FACILITIES GRANTS;
 - VOCATIONAL REHABILITATION AND EDUCATION, TRAINING AND EMPLOYMENT GRANTS AND STATE EDUCATION BLOCK GRANT;
 - HEALTH, SOCIAL SERVICES AND COMMUNITY SERVICES BLOCK GRANT, CHILD NUTRITION, LOW INCOME ENERGY ASSISTANCE, AND NUMEROUS CATEGORICAL SOCIAL WELFARE PROGRAMS;
 - REVENUE SHARING.

TURNBACK PROGRAM COMPOSITION FY '84 LEVEL

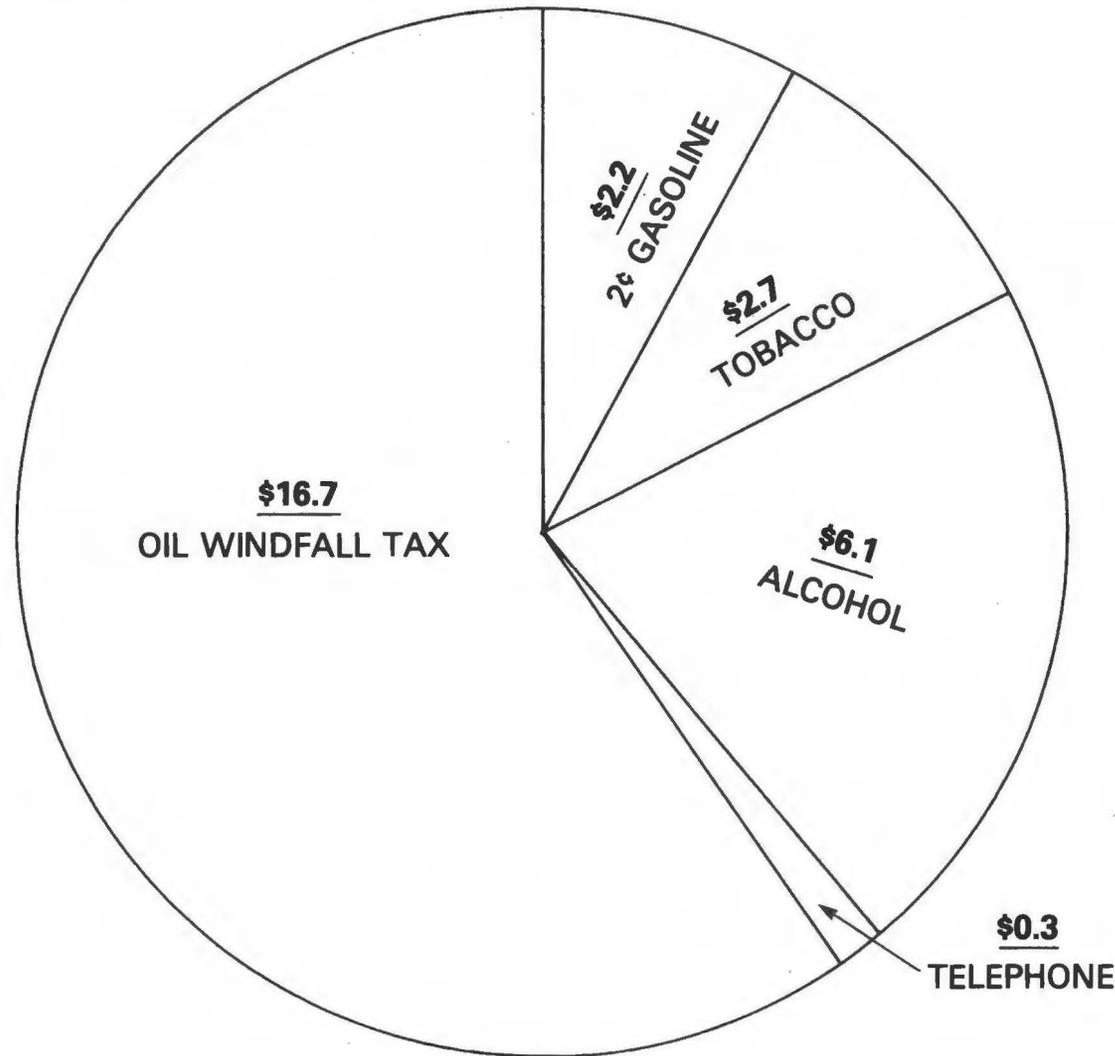


TOTAL: \$30.2 BILLION

V. FEDERALISM TRUST FUND

- USED FOR TWO MAJOR PURPOSES DURING PHASE I:
 - FINANCING SOURCE FOR MORE THAN 40 TURNBACK PROGRAMS OR SUPER REVENUE-SHARING AT STATE OPTION;
 - EQUALIZE GAINS AND LOSSES AMONG STATES ON MEDICAID/PUBLIC ASSISTANCE SWAP.
- ALLOCATED AMONG STATES ON BASIS OF HISTORIC SHARES (FY'79-81) OF TURNBACK PROGRAM COSTS—MODIFIED BY GAIN OR LOSS ON SWAP;
- FINANCED FROM EXISTING FEDERAL ALCOHOL, TOBACCO AND TELEPHONE, MOTOR FUEL (2 CENTS ONLY) AND PART OF OIL WINDFALL TAX;
- \$28 BILLION PER YEAR THROUGH FY'87, THEN DECLINES BY 25% (\$7 BILLION/PER YEAR) THROUGH FY'91—AS FEDERAL EXCISE TAXES PHASE-DOWN (OIL WINDFALL TAX PHASES OUT UNDER CURRENT LAW SCHEDULE);
- FINAL RESULT: FEDERAL EXCISE TAXES RETURNED FULLY TO STATE JURISDICTION.

FEDERALISM TRUST FUND — DEDICATED RECEIPTS FY '84 — '87 LEVEL



TOTAL: \$28 BILLION

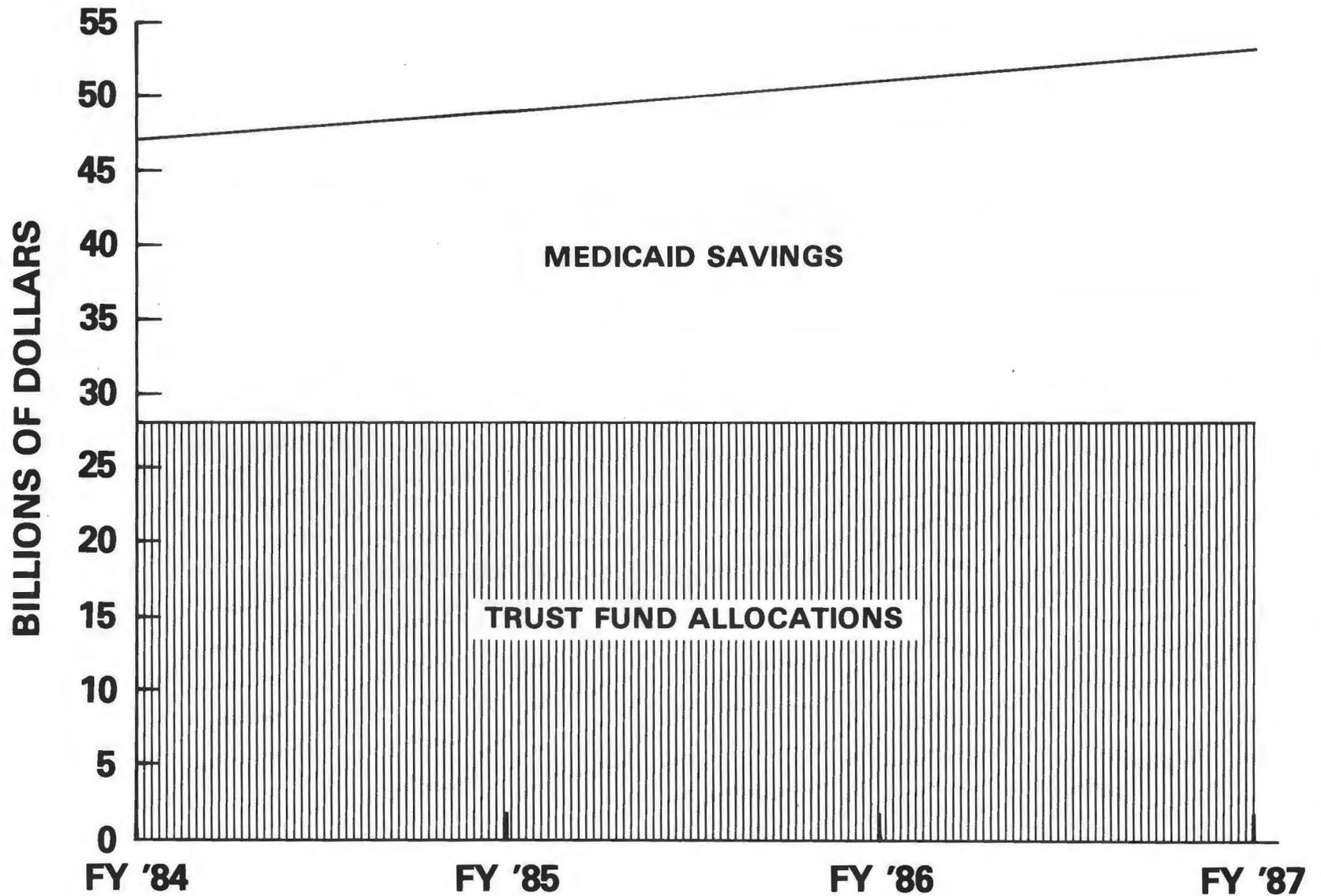
VI. STATE OPT-OUT MECHANISM – PHASE I

- FEDERAL PROGRAMS OPERATED AND MANAGED AT FEDERAL LEVEL THROUGH FY '87—TO GIVE STATES AMPLE TIME TO DEVELOP POLICY AND ADMINISTRATIVE CAPACITIES;
- STATES MAY ELECT TO WITHDRAW FROM SOME OR ALL FEDERAL GRANT PROGRAMS BEFORE FY '87—IF APPROVED BY LEGISLATURE AND GOVERNOR AFTER CONSULTATION WITH AFFECTED INTERESTS. ONE-YEAR NOTICE TO FEDERAL GOVERNMENT FOR VOLUNTARY WITHDRAWAL.
- IF STATES WITHDRAW FROM FEDERAL GRANT PROGRAMS, RESULTING TRUST FUND SURPLUS TREATED AS SUPER REVENUE-SHARING PAYMENT, AND MAY BE USED FOR ANY PURPOSE.
- SOME OF SUPER REVENUE-SHARING PAYMENT MUST BE PASSED-THROUGH TO LOCAL UNITS.
- IF STATES REMAIN IN FEDERAL GRANT PROGRAMS DURING PHASE I (FY '84-87), MUST REIMBURSE FEDERAL AGENCIES FOR PROGRAM EXPENSES FROM TRUST FUND, AND ABIDE BY FEDERAL CONDITIONS AND RULES.
- ALL FEDERAL GRANT PROGRAMS TERMINATED IN PHASE II (FY '88-91). ENTIRE DECLINING STATE TRUST FUND BALANCE TREATED AS SUPER REVENUE-SHARING.

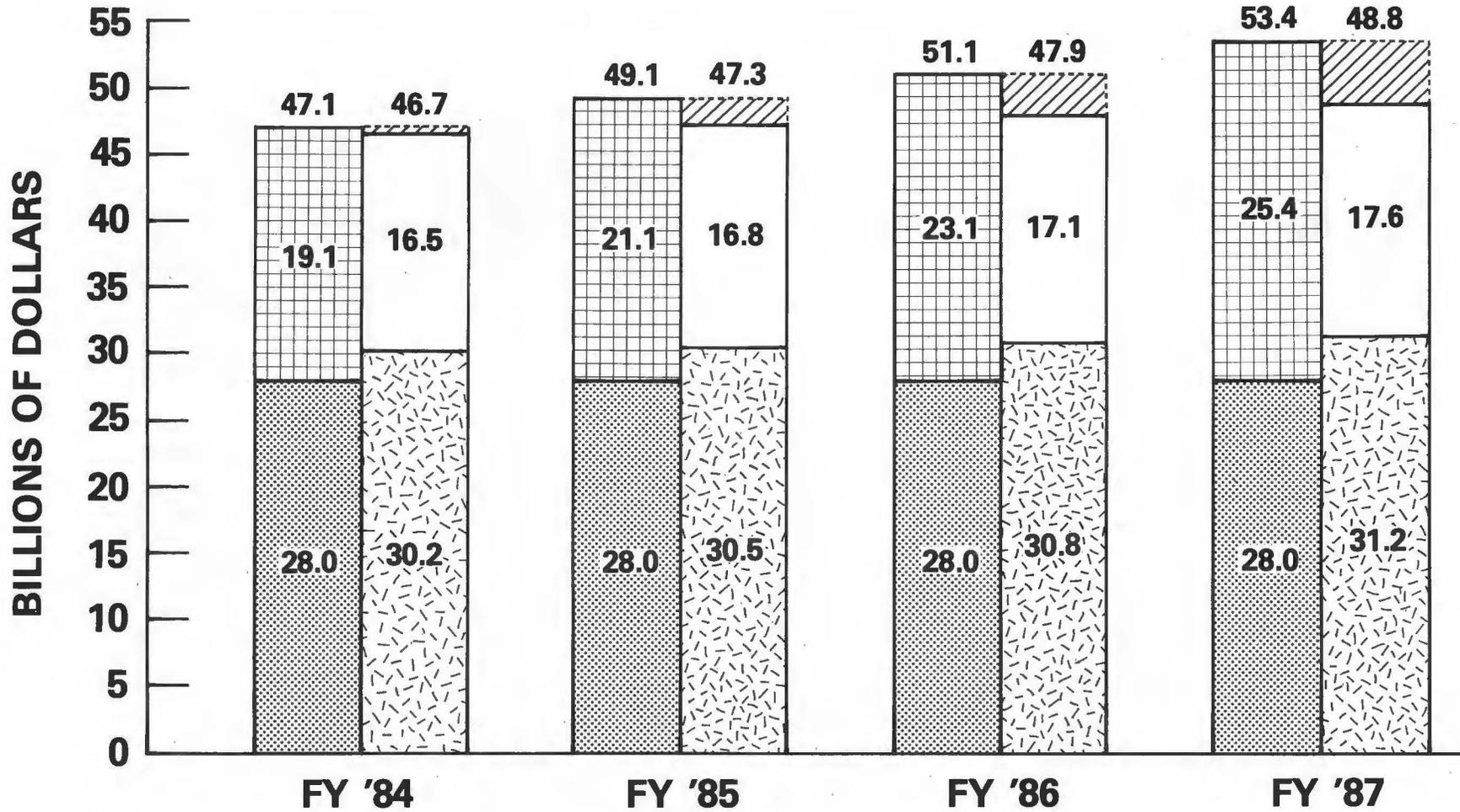
VII. SUPER REVENUE-SHARING PASS-THROUGH

- TO INSURE FULL LOCAL PARTICIPATION IN THE FEDERALISM PROGRAM AND FAIR TREATMENT DURING THE TRANSITION, SUPER REVENUE-SHARING PAYMENTS SUBJECT TO THREE PASS-THROUGH CONDITIONS:
 - IF STATES OPT-OUT OF DIRECT FEDERAL-LOCAL GRANT PROGRAMS (E.G. UDAG, MASS TRANSIT)—100 PERCENT PASS-THROUGH TO LOCAL UNITS;
 - IF STATES OPT-OUT OF OTHER FEDERAL PROGRAMS—15 PERCENT PASS-THROUGH TO LOCAL UNITS BASED ON GENERAL REVENUE SHARING FORMULA.
 - NO PASS-THROUGH OF EDUCATION MONIES—AS THESE PROGRAMS GENERALLY NOT IN JURISDICTION OF GENERAL UNITS OF LOCAL GOVERNMENT.

REVENUE SOURCES AVAILABLE TO STATES



NET FISCAL IMPACT



MEANS OF FINANCING

 MEDICAID

 TRUST FUND

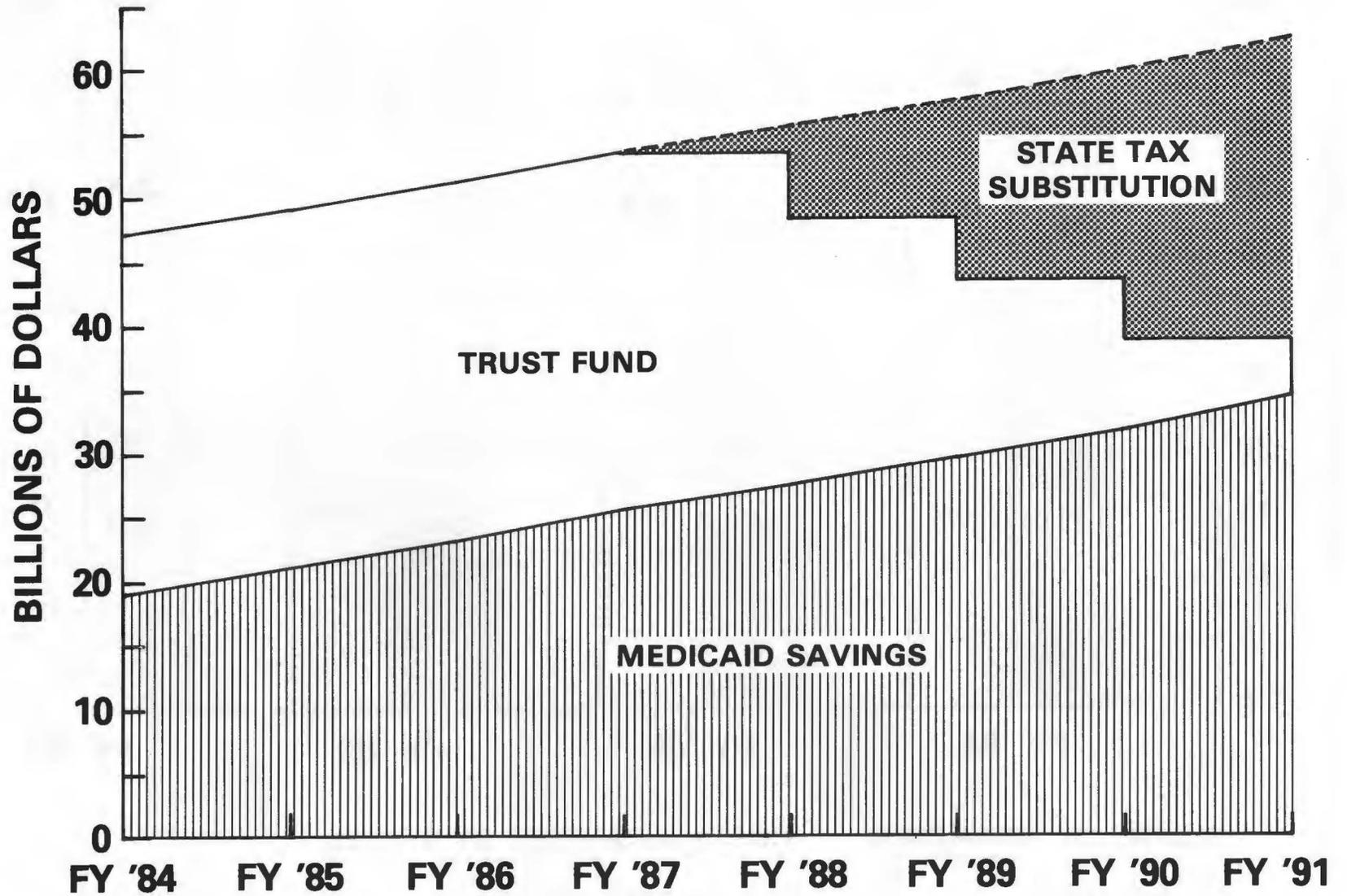
COSTS ABSORBED BY STATES

 WELFARE PROGRAMS

 TURNBACK PROGRAMS

 SURPLUS

STATE FINANCING SOURCES FY '84-'91



IX. RATIONALE AND JUSTIFICATION

- DESIGNED TO RESTORE BALANCE OF RESPONSIBILITIES WITHIN FEDERAL SYSTEM AND TO REDUCE DECISION, MANAGEMENT AND FISCAL OVERLOAD ON FEDERAL GOVERNMENT;
- PROVIDES CLEAN SEPARATION OF DOMESTIC WELFARE RESPONSIBILITIES BETWEEN FEDERAL AND STATE/LOCAL SECTORS;
- LARGELY ABOLISHES OVER 8 YEARS THE EXISTING, UNWORKABLE FEDERAL/STATE GRANT-IN-AID SYSTEM WHICH TENDS TO TRANSFORM NON-FEDERAL UNITS INTO SUBORDINATE MIDDLE-MANAGEMENT EXTENSIONS OF THE WASHINGTON BUREAUCRACY. AFTER TRANSITION, INTER-GOVERNMENTAL RELATIONSHIP BASED ON INDEPENDENT PROGRAM RESPONSIBILITIES, INDEPENDENT FINANCES, AND FULL AND MUTUAL SOVEREIGNTY;
- PREMISED ON FACT THAT OVER PAST 30 YEARS—REAPPORTIONMENT, GOVERNMENTAL REFORM AND MODERNIZATION, AND EXTENSIVE OPERATIONAL RESPONSIBILITIES FOR DOMESTIC WELFARE PROGRAMS—HAVE DRAMATICALLY STRENGTHENED STATE AND LOCAL CAPACITIES FOR FULL AND RESPONSIBLE PARTNERSHIP IN THE AMERICAN GOVERNMENTAL SYSTEM.

CLEAN SEPARATION OF DOMESTIC WELFARE RESPONSIBILITIES

FEDERAL GOVERNMENT

- SOCIAL INSURANCE SYSTEM. SOCIAL SECURITY RETIREMENT, DISABILITY AND MEDICARE.
- TRANSFER AID TO NEEDY ELDERLY. SSI, MEDICAID, HOUSING, SENIOR SERVICE PROGRAMS.
- HEALTH INSURANCE AND MEDICAL ASSISTANCE. MEDICARE, MEDICAID, AND TAX INCENTIVES FOR PRIVATE INSURANCE.
- PROJECTS OF NATIONAL SIGNIFICANCE/PRIORITY. COMPENSATORY EDUCATION AND HEAD START, HIGHER EDUCATION SUPPORT, HANDICAPPED EDUCATION, INTERSTATE HIGHWAYS, AND REGULATORY PROTECTIONS WITH INTERSTATE IMPACT.

STATE AND LOCAL SECTOR

- LOCAL TRANSPORTATION. BRIDGES, STREETS, STATE/LOCAL HIGHWAYS, MASS TRANSIT.
- COMMUNITY DEVELOPMENT AND LOCAL CAPITAL INVESTMENT. SEWER TREATMENT PLANTS, NEIGHBORHOOD RENEWAL, DOWNTOWN REVITALIZATION.
- GENERAL EDUCATION. ALL CURRENT FEDERAL PROGRAMS OTHER THAN HANDICAPPED AND COMPENSATORY.
- SOCIAL, HEALTH AND NUTRITION SERVICE DELIVERY. DAY CARE, REHABILITATION, COMMUNITY HEALTH CENTERS, DRUG/ALCOHOL TREATMENT, NUTRITION AND HEALTH SERVICES TO LOW-INCOME FAMILIES, SOCIAL WORK AND PROTECTIVE SERVICES.
- CASH ASSISTANCE TO NON-ELDERLY NEEDY. SUCCESSOR PROGRAMS OF STATE/LOCAL DESIGN FOR FOOD STAMPS/AFDC.

of Federalism

THE WHITE HOUSE

Office of the Press Secretary

For Release at 2:30 p.m. EST
Wednesday, January 27, 1982

FACT SHEET

FEDERALISM INITIATIVE

I. Summary

President Reagan has proposed in his State of the Union address a major reshaping of the fiscal relationship between the Federal government and the states. If approved by Congress, the full transformation will take place over the next decade, with the first major impact in fiscal year 1984. In the end, there will be a far clearer delineation of Federal and state responsibilities, with significant advantages to each. The plan as proposed is a framework for discussion, with details to be filled in following intensive consultation in the coming weeks.

Following are highlights of the framework plan:

- o Starting in 1984 the Federal government would assume full responsibility for financing Medicaid while the states take over the two main welfare programs -- food stamps and aid to families with dependent children (AFDC).
- o This \$20 billion swap would consolidate responsibility for the major medical programs at the Federal level and income assistance for the non-elderly needy at the state level. State savings from the swap grow by an increasing margin over time.
- o For the transfer of other Federal grant programs, a new \$28 billion trust fund belonging to the states would be established. It would be financed by existing Federal excise taxes and a portion of the oil windfall profits tax.

- o The states would draw upon this trust fund as they assume responsibility for more than 40 present grant programs in the areas of education, community development, transportation and social services. Turnback of these programs to states would be optional through FY 87. If states elect to withdraw from the Federal grant programs before then, their trust fund allocations would be treated as super revenue sharing and may be used for any purpose.
- o For the states, individually and collectively, the plan involves essentially no net financial gain or loss. They would have a known, increasing and assured future source of financing without the present uncertainty over Federal budget cuts.
- o There would be protections in such areas as pass-through of funds to local governments, civil rights and adequate benefit levels for welfare.

II. The Nature of the Problem

Federal grants to state and local governments have proliferated in the past two decades and have now attained a bewildering complexity that is satisfying to none of the parties. They have also been a significant cause of the growth of Federal spending. Numerous governors and mayors, and such bodies as the Advisory Commission on Intergovernmental Relations, have called urgently for reform.

- o In 1960, total Federal grant outlays to state and local governments were \$7 billion; by 1981 they were about \$95 billion.
- o In the same period the number of grant programs almost tripled, to about 500. In 1981, the Department of Health and Human Services administered more than 160 separate programs in the health area alone, for example. Seven different agencies provided grants for community and economic development, and five agencies funded water and sewer projects. There were 76 separate grant programs for elementary, secondary and vocational education.
- o Between 1960 and 1981, Federal grant funding levels grew at an average annual rate of 13 percent -- far faster than GNP, the Federal budget or public sector expenditures as a whole.

- o During that period the grant-in-aid share of the Federal budget nearly doubled, to 14 percent last year; grants now finance 27 percent of state and local government expenditures compared to 15 percent 20 years ago; and they have risen from 1.4 percent to 3.4 percent of the gross national product.
- o The table below shows the growth of grants in several general functions and specific programs:

Increase in Federal Grants-in Aid to State
and Local Governments
(dollars in millions)

<u>Federal Grants in Selected Functional Areas:</u>	<u>1960</u>	<u>1981</u>	<u>Federal Grants in Selected Program Areas:</u>	<u>1960</u>	<u>1981</u>
Energy.....	\$6	\$618	Vocational & Adult Education..	\$39	\$927
Transportation...	\$2,993	\$12,885	Child Nutrition..	\$154	\$3,213
Health.....	\$214	\$18,607	Waste Water Con- struction Grants.	\$40	\$4,200
Income Security..	\$2,635	\$21,771	Elementary and Secondary Education.....	\$69	\$3,345
			Human Development	\$3	\$1,432

- o Statutory requirements and red tape associated with Federal assistance make the current Federal grant system almost impossible to administer. A typical grant program imposes from 300 to 500 separate requirements and mandates on state and local governments as a condition for receipt of funds.

- o These requirements are accompanied by needless burdens on all parties. For example, child nutrition programs now involve 273 pages of Federal regulations and 62 million "burden hours" of paperwork a year, the equivalent of 30,000 persons working for a full year to fill out forms.
- o The Reagan Administration has made a start in dealing with this problem. Between 1980 and 1982, the total number of separate programs will be reduced, partly by terminating some programs and partly by consolidation into block grants.
- o Responding to Administration requests, Congress last year consolidated 57 programs into 9 block grants. But a solution to the problem requires going beyond block grants to the thorough transformation of the system proposed by the President today.

III. How the Plan Works

- o Starting in fiscal year 1984, the Federal government will assume the full cost of the rapidly growing medicaid program, to go along with its existing responsibility for medicare. This will save the states an estimated \$19 billion in 1984, which would rise to \$25 billion in 1987 under present trends.
- o Also starting in 1984 the states will assume the full cost of the two major components of our welfare system -- food stamps, which is now federally financed but administered by the states, and aid to families with dependent children (AFDC), which is now shared between the states and the Federal government.
- o On a nationwide basis, the "swap" of medicaid for food stamps and AFDC involves a net saving for the states of more than \$2 billion in FY 84, an amount that will grow in later years because of the rapidly rising cost of medicaid. This swap is independent of the new trust fund described in the following paragraphs.
- o The Federal government will earmark existing alcohol, tobacco and telephone excise taxes, 2 cents of the gasoline tax and a portion of the oil windfall profits tax for a new \$28 billion Federalism trust fund that will belong to the states.

- o The share of each state in the trust fund will be based on its 1979-1981 share of specified Federal grants now slated for "turnback" (see appendix A), with an adjustment for any gains or losses for individual states resulting from the medicaid-welfare swap.
- o During a transition period of four years, FY 84-87, the states can use their trust fund money in either of two ways. If they want to continue receiving some or all Federal grants that are designated for turnback, they can use their trust fund money to reimburse the Federal agencies that make those grants and abide by Federal conditions and rules. Or, to the extent they choose to forego the Federal grant programs, they can receive their trust fund money directly as super revenue sharing, to be used for these or other purposes. There will be a mandatory pass-through of part of the super revenue sharing funds to local governments.
- o The size of the trust fund will nearly equal the size of the turnback programs, which will total about \$30.2 billion in FY 84. Thus the states, counting their net savings from the medicaid-welfare swap, will lose nothing in fiscal terms and, equally important, they will no longer have to be concerned about Federal budget reductions.
- o Beginning in FY 88, the more than 40 Federal turnback programs -- which involved 124 separate grants in 1981 -- will cease to exist and the states will be in complete control of their own priorities.
- o Also after four years, the Federal excise taxes will start to phase out, by 25 percent each year, and will disappear after 1991. The trust fund will go out of existence on the same schedule. The states will be able to impose the same excise taxes at their option to preserve their revenues, with no tax-raising effect on the items concerned. Or they can choose other revenues, or reduce program cost.
- o During the period of operation of the trust fund, taking into account the medicaid-welfare swap, the problem of "winners and losers" among the states is minimal.

IV. Operating Principles of the Plan

The plan represents a long-overdue effort to sort out responsibilities within the Federal system on the basis of clear principles and criteria. Apart from its natural functions such as defense, the Federal government will retain and in some cases assume responsibility for the most dramatically increasing domestic social needs.

Under the plan the Federal government will be responsible for health and income maintenance programs for the elderly, including social security, and health care for the poor of all ages.

The states will assume responsibility for domestic needs that are growing much less rapidly, have in most cases historically been a state and local function, and which even now are administered and largely financed by the states despite the proliferation of Federal grants.

As Governor Babbitt of Arizona has said:

"Congress ought to be worrying about arms control and defense instead of potholes in the street. We might just have both an increased chance of survival and better streets."

In the Federal domain --

Health Care

- o Health care has been the most rapidly rising expense for both the private sector and government. National health care spending more than doubled from 1974 to 1980, from \$116 billion to \$247 billion annually. The increase of 15.2 percent in national medical costs in 1980 alone was the largest on record.
- o Medicare and the Federal/state cost of Medicaid increased even more drastically, an average of 16% per year between 1975 and 1980, 21% in 1981 alone. Total costs grew from \$30.8 billion to \$72.5 billion. Only an integrated cost containment and reform program can hope to slow either program.

Aged

- o The country's proportion of persons above age 65 will increase by over 25% between 1970 and 1990, from 9.7% to 12.4% of the population. Current projections place the proportion at 20% by the year 2010.
- o Under social insurance and other programs this growth in the elderly population has produced and will continue to produce rapid growth of government outlays. The Federal government will bear major responsibility for these expenditures, including supplemental security income, medicaid, housing assistance and senior nutrition and service programs, as well as medicare and social security.

In the State domain --

- o Under current law, the total funding level for AFDC and Food Stamps is projected to increase only about 10% by 1987, compared with a projected 83% increase in the total cost of Medicaid in the same period.
- o As to education, the national school age population, aged 5-17, peaked in 1970 at 51.3 million and will decline 4% from 45.0 million in 1981 to 43.4 million in 1984.
- o States will receive a secure, dedicated revenue source to finance the turnback programs, removing most of the present uncertainty over funding levels.

--In the past, states could not anticipate with certainty the level of Federal funding. From 1970 to 1981, Federal grants-in-aid to state and local governments increased in an erratic pattern ranging from 3% to 22%, and they decreased in 1982.

--In the past, states have had to readjust their planning as often as seven times per year because of changes at various stages in the Federal budget process.

--Federal excise taxes will be turned back and eventually eliminated, and excise taxes will be added to sales and property taxes as inherently state and local sources of revenue. In addition, the President's decision not to seek excise tax increases will maximize present state and local options to raise these taxes if they so desire.

- o Protections will be maintained for cities, welfare recipients, and minorities subject to discrimination.

- A mandatory pass-through procedure for local general units of government is incorporated in the super revenue sharing element of the plan.

- Transition requirements will be established to ensure that welfare recipients will not have their basic benefits reduced as the states assume responsibility for AFDC and food stamps.

- Full civil rights protections against discrimination on the basis of race, color, ethnic origin, sex, religion, handicap and age are included on a model patterned after General Revenue Sharing.

- o The Program will not result in significant net increases in migration from low to high benefit states.

- The program's maintenance of effort provision will provide protection for current beneficiaries in low benefit states.

- The data on the subject make clear that migration of the poor has occurred in response to economic opportunity, not welfare benefit levels; past migrations from the South to the Northeast reflected greater availability of jobs in the latter region during the 1950-1970 period.

- The point was summarized in 1978 by Senator Moynihan, while serving as Chairman of the Senate Finance Subcommittee on Public Assistance:

- "[T]he primary factor in deciding where to migrate seems to be labor market conditions; differences in state AFDC benefit levels have only a minor influence on the relocation decision of poor families."

V. State Readiness to Assume Responsibilities

As the Advisory Commission on Intergovernmental Relations has concluded,

"A largely unnoticed revolution has occurred in state government. The states have been transformed to a remarkable degree. The decades of the 1960s and 1970s witnessed changes in state government unparalleled since the post-Reconstruction period a century ago, generally in the direction advocated by reformers for 50 years."

- o Twenty years ago, all but five state legislatures were badly malapportioned. Since Baker vs. Carr (1962), every state has apportioned its legislature on the basis of one person, one vote.
- o Past regional differences in wealth have narrowed dramatically. In 1960, the per capita income in the wealthier regions, the Mideast and Far West, was 16% above the national average, compared with an income level in the Southeast that was 27% below the national average.
- o By 1977, the relative disparity had been reduced by 40% with the wealthiest region, the Far West, having per capita income 11% above the national average and the poorest region, the Southeast, only 14% below. Moreover, all the states in the Southeast have experienced growth in per capita income since 1970 at rates exceeding the national average.
- o Between 1960 and 1980, black voter registration in the eleven Southern states rose from 29.1% of the voting age population to 59.8%. Southern white registration during the same period rose only 4% -- from 61.6% to 65.7%.
- o One-party states have largely become a phenomenon of the past. Since 1968, no single party has held a monopoly on senatorial and gubernatorial positions in any state.
- o The diversity of interest groups active at the state level has increased significantly since the mid-60s. Witness the growth of environmental, ethnic and racial minority, disadvantaged, tax reform, handicapped, and other citizen lobbies in virtually every state capital.

- o Executive power in state government has become more focused, more accountable, and more professional. 46 states now have four-year gubernatorial terms; 45 permit their governors to succeed themselves; virtually all governors now control a state planning unit. Between 1965 and 1980, all states undertook reorganizations of executive departments; 24 states reduced the number of independently elected administrative heads.
- o Almost all state legislatures now meet every year in either regular or special session; professional staffs now provide technical support for the finance and appropriations committees or in a central legislative unit in every state on a year-round basis, compared to only a handful 20 years ago.
- o A 1979 Harris poll shows that the public views state legislatures as less wasteful, better able to give taxpayers value for tax dollars, and more in touch with what people think than the U.S. Congress.
- o Every state judicial system is now required to hear and remedy cases arising under constitutional and other Federal law. In addition, state courts have taken the lead in many instances in extending rights beyond those recognized in Federal law. State court systems in virtually every state have been dramatically reformed.
- o The proportion of state civil servants covered by a merit system has increased from 50% in 1960 to 75% in 1980.
- o State revenue sources have become significantly more diversified and resilient. 36 states now have a corporate and personal income tax, as well as a general sales tax, compared to only 19 in 1960.
- o State responsiveness to local fiscal needs has dramatically increased. Total state aid to localities funded from the states' own revenues grew nearly sixfold from 1965-1980, and now surpasses \$60 billion a year.

VI. Effect on the Political Process

- o The proliferation of Federal programs has undermined the ability of elected officials to make actual policy. From 1964 to 1978, the number of roll call votes in the House rose from 232 to 1540, and the number of committee and subcommittee meetings rose from 3596 to 6771.
- o While in 1965 Representatives reported that they spent an average of one day a week on legislative study, in 1977 the Obey Commission reported that Congressional study time shrank to only 11 minutes per day. The role of unelected staffs rose correspondingly: from 4500 House staffers in the mid-60s to 9000 in 1979.
- o Federal categorical grant programs have treated the states as middle-level managers for the Federal government, rather than as sovereign states with programmatic, not just administrative, responsibilities.
- o Stimulated by Federal growth, lobbying is now the third largest industry in Washington, with an annual budget of \$4 billion. Exclusive of privately retained law firms and lobbyists, Washington offices of states, cities, and related public groups currently employ at least 1500 persons and consist of at least 72 special state and local interest groups, 32 states, 3 state legislatures, 20 cities and 10 counties. Mayors and governors now spend increasing portions of their time regularly travelling to Washington.
- o The plan represents a non-partisan program for reorganization of Federal-state relations. Democrats presently hold 27 out of 50 governorships, and both Houses of the state legislature in 28 states, compared to 23 Republican governors and only 15 Republican state legislatures.

APPENDIX A: ILLUSTRATIVE LIST OF PROGRAMS
FOR TURNBACK TO THE STATES

<u>Category/Program</u>	<u>Number of Grants Made</u> <u>in FY 1981</u>
<u>Education & Training (5)</u>	
Vocational Rehabilitation.....	5
Vocational & Adult Education.....	13
State Block Grants (ECIA Ch. 2).....	28
CETA.....	8
WIN.....	<u>1</u>
	55
<u>Income Assistance (1)</u>	
Low Income Home Energy Assistance.....	1
<u>Social, Health & Nutrition Services (18)</u>	
Child Nutrition.....	4
Child Welfare.....	1
Adoption Assistance.....	1
Foster Care.....	1
Runaway Youth.....	1
Child Abuse.....	1
Social Services Block Grant.....	2
Legal Services.....	1
Community Services Block Grant.....	8
Prevention Block Grant.....	8
Alcohol, Drug Abuse & Mental Health Block Grant.....	5
Primary Care Block Grant.....	1
Maternal & Child Health Block Grant.....	7
Primary Care Research & Development.....	1
Black Lung Clinics.....	1
Migrant Health Clinics.....	1
Family Planning.....	1
Women, Infants & Children (WIC).....	<u>1</u>
	46

Transportation (11)

Grants-in-Aid for Airports.....	2
Highways:.....	6
Primary	
Rural	
Urban	
Bridge	
Construction Safety	
Other	
Interstate Transfer.....	1
Appalachian Highways.....	1
Urban Mass Transit:	
Construction.....	1
Operating.....	<u>1</u>
	12

Community Development & Facilities (6)

Water & Sewer:.....	2
Grants	
Loans	
Community Facilities Loans.....	1
Community Development Block Grant.....	2
Urban Development Action Grants.....	1
Waste Water Treatment Grants	<u>1</u>
	7

Revenue Sharing & Technical Assistance (2)

OSHA State Grants.....	1
General Revenue Sharing.....	<u>2</u>
	3

GRAND TOTALS:

Programs.....	43
Grants made in 1981.....	124

file

THE WHITE HOUSE

WASHINGTON

November 16, 1981

MEMORANDUM FOR JAMES A. BAKER, III

FROM: RICHARD S. WILLIAMSON *Rich*

SUBJECT: FEDERALISM REPORT

Attached is a draft report from the President on the Administration's Federalism accomplishments during the last ten months.

As you may recall, this report was circulated to a number of people for comment last Monday, November 9. On Tuesday, Ed Harper said that OMB needed more time to review it. On Friday at Senior Staff, Ed Harper said OMB recommended that the report not go forward in its present form, saying that many of the agency submissions included issues which were still being reviewed at OMB. We have also been told by people at OMB that they do not have time during the budget review season to review the report.

In effect, they have said that the report cannot go out without OMB clearance, but they don't have time to review it.

It was agreed on Friday that a 5-10 page summary report on Federalism would be prepared for distribution at the President's meeting with Federalism reporters now scheduled for Thursday of this week. But the ultimate disposition of the full Federalism report was left up in the air.

I strongly urge that the Federalism report be published in the next week to ten days and that OMB be directed to complete their review and have their suggested changes in by the end of this week.

I am open to OMB's suggestions regarding items to be changed or deleted in the report. But there is a tremendous story to be told concerning the Federalism revolution in the departments and agencies, and the true impact is only conveyed by something along the lines of the full treatment in the attached report.

(Please bring up - B-fast)

THE WHITE HOUSE

WASHINGTON

November 16, 1981

President Reagan is committed to changing the way in which America is governed. He is intent on cutting the size of the federal government which has grown too big, inefficient, wasteful and unresponsive to the people; and to returning many responsibilities, authority and revenue resources back to state and local officials where they belong. To achieve this goal, a meaningful partnership is important between the Administration and these state and local elected leaders.

During the first months of President Reagan's Administration, it has been a privilege to work with so many state and local officials who share the President's dream of a quiet revolution whereby a proper balance will be returned between the federal government, state and local governments, and the people.

The continued dialogue with state and local officials and the Administration is critical for the success of this venture.

This report is part of that dialogue. It makes clear that a revitalized federalism permeates the domestic policy initiatives of the President and his Administration. The budget cuts, regulatory relief, block grants, tax cuts, and hundreds of other actions taken by the departments and agencies reflect the President's federalism dream.

The Administration looks forward to continuing this process. We will continue to look to state and local officials for advice, constructive criticism, and help in implementing the "quiet revolution."

Richard S. Williamson
Assistant to the President
for Intergovernmental Affairs

THE WHITE HOUSE

WASHINGTON

November 16, 1981

During the past two decades, we have seen the principle of Federalism nearly disappear as a guiding force in American politics and government. Americans have begun to recognize that the steady flow of tax dollars and power to Washington has resulted in a government which -- at least at the Federal level -- just doesn't seem to work anymore. We have seen the Federal government take too much taxes from the people, too much authority from the states, and too much liberty with the Constitution.

My Administration is committed heart and soul to returning authority, responsibility and flexibility to the state and local governments. We have made good progress during these first 10 months. We have consolidated 57 categorical grant programs into 9 block grants. We have begun to remove the regulatory manacles that bind the actions of state and local officials. We have established a Presidential Advisory Committee on Federalism -- chaired by my good friend Senator Paul Laxalt -- to take a critical look at these issues and make recommendations to me and my Administration. And, as this report shows, each of the departments and agencies in the Federal government has taken major steps to return responsibility to state and local officials.

While recognizing all of these positive accomplishments, much work remains to be done. The next several years promise to be among the most exciting in the history of our intergovernmental system, as state and local governments assume responsibilities that had been preempted by the Federal government over the past several decades.

I invite your continued attention to our progress.

RONALD REAGAN

DRAFT

DRAFT

Dear (NAME):

Ronald Reagan and I first met when we were both Governors of Western States. We shared -- then and now -- a firm belief that many of this country's problems stem from the growth of government and the massive centralization of power that has nullified the intent of our founding fathers.

When President Reagan told me shortly after his Inauguration that he was forming a Committee on Federalism, I wasn't suprised. When he asked me to be chairman of that Committee, I accepted the job immediately because I knew this was an area where the President wanted results. This report from the President shows the extent to which results have already been achieved in returning responsibility to state and local governments.

The Advisory Committee on Federalism has attracted top people with impressive credentials from federal, state, and local governments. By the end of the year, the full Committee and each of its subcommittees will have met at least once, analyzing Federalism issues from revenue turnbacks and regulatory relief to human resources and community development.

The election of Ronald Reagan in 1980 was more than a demand by the people for temporary relief from their economic hardships. It was a mandate for the fundamental changes that are necessary to recapture the spirit of vigor and optimism that once was America's hallmark.

A revitalized Federalism is a crucial part of that fundamental change. I am pleased to be able to play a part in structuring the President's agenda in this area.

Sincerely,

Paul Laxalt
Chairman
Presidential Advisory Committee
on Federalism

FEDERALISM: THE FIRST 10 MONTHS

A REPORT FROM THE PRESIDENT

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The Task Force on Regulatory Relief: Its Impact
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Address by President Reagan before the National
Conference of State Legislators, July 30, 1981

Federalism Initiatives by Agency

 Action

 Agriculture, Department of

 Commerce, Department of

 Community Services Administration

 Education, Department of

 Energy, Department of

 Environmental Protection Agency

 General Services Administration

 Health and Human Services, Department of

 Housing and Urban Development, Department of

Interior, Department of
International Communications Agency
Justice, Department of.
~~Labor, Department of~~
National Aeronautics and Space Administration
National Science Foundation
Office of Management and Budget
Transportation, Department of
Treasury, Department of

THE WHITE HOUSE

WASHINGTON

PRESIDENT REAGAN AND FEDERALISM: AN OVERVIEW

Background

Federalism has been a theme of President Reagan throughout his public career. As governor, he pledged to the people of California that he would work "to make the state an effective bulwark between the people and an ever-encroaching Federal government."

When accepting the Republican nomination for president, he declared "everything that can be run more effectively by state and local government we shall turn over to state and local government, along with the funding sources to pay for it."

In his inaugural address he told the nation, "it is my intention to curb the size and influence of the Federal establishment and to demand recognition of the distinction between the powers granted to the Federal government and those reserved to the states or to the people. All of us need to be reminded that the Federal government did not create the states; the states created the Federal government."

President Reagan entered the Oval Office with the solid backing of the American voters to reduce the size and scope of the Federal government.

Reagan Federalism Principles

Under President Reagan's federalism concept, block grants, regulatory reform, and greater sensitivity to State and local desires, will be used to reverse the trend towards greater control over States and local programs by the federal government. To these ends, the following guiding principles are directed:

- o Substitute State and local governments for the federal government in dealings with non-governmental grantees, etc., (e.g., ACTION).

- Combine and move to the state and local levels categorical federal programs through a block grant process.
- Provide maximum state discretion and minimum Federal constraints in all block grants.
- Place planning, audit and review functions at the state level utilizing regular state economic package and audit functions wherever possible.
- Where appropriate, move regulatory authority from the Federal level to the state level of government.
- Remove spending mandates on state and local governments from Federally-financed programs.
- Replace Federal funding with a movement of revenue sources from the federal government to state and local governments.

Federalism Initiatives

It has often gone unnoticed that three of the four major components of the President's economic recovery package -- budget cuts, regulatory relief, and tax cuts -- reflect the President's federalism perspective.

The passage of the budget cuts provided the momentum for the Administration to undertake a massive turnback of power, responsibility and revenue to state and local governments. As the President told an audience in March:

"We are not cutting the budget simply for the sake of sounder financial management. This is only a first step toward returning power to states and communities, only a first step toward reordering the relationship between citizen and government."

A major portion of this transfer of power was in the form of block grants. Categorical grants (which direct and restrict state and local governments on the use of federal money for narrow program purposes) have risen to about 600 this year from approximately 40 in 1959. The cost to the taxpayer in these two decades grew from \$6.7 billion to over \$90 billion, a 1,243% increase. President Reagan

proposed the consolidation of 88 categorical grants into seven block grants covering health, education, community development, and social services.

Congress did not give the President all he wanted, consolidating 57 categorical grants into nine new or modified block grants. This partial success was nevertheless unprecedented. In the last two decades, only five of twenty proposed block grants had been enacted into law. For description of the new block grants, see page _____.

In terms of the President's "New Federalism," the significant tax cuts will increase the tax base at the state and local level. For example, over the next three years, the President's tax cuts will leave more than \$38.5 billion in the hands of Californians to spend as they wish.

The third component of the President's economic recovery plan is regulatory relief. President Reagan announced the formation of the Task Force on Regulatory Relief the day following the Inauguration, to be chaired by the Vice President.

In addition, the President signed Executive Order 12291, establishing for the first time a centralized mechanism for presidential management of agency rulemaking activities with substantial authority for meaningful intervention into and direction of the process at all stages. For example, government Departments are required to submit a cost-benefit analysis for any regulation having an impact of more than \$100 million. Additional details on regulatory relief actions are discussed at Tab II.

One of their aims is to remove the heavy hand of the federal government which is choking the administrative efficiency of state and local governments as well as smothering the opportunity to develop innovative solutions to meet the needs of their communities. Some 120 regulations have been targeted by the Task Force and over one-third relieve the regulatory burden on state and local governments.

In a letter to Senator William Roth, the President has endorsed S. 807, which would simplify and expedite Congressional review of proposed grant consolidations and introduce new means of reducing the regulations which have burdened the current categorical grants.

Coordination between Federal, State and Local Government Officials

- ° In order to provide a framework for the discussion of federalism initiatives, the President moved swiftly. Early in the Administration, President Reagan asked each of his

Cabinet Members and Agency Heads to ensure that there was a high-level person with responsibility for intergovernmental affairs in their Department or Agency. He instructed them to conduct early and genuine consultations with state and local officials concerning program and policy changes. He also asked that they monitor programs carefully to ensure they do not have unintended and undesirable effects on state and local governments. (Memorandum is on page _____).

- Two dozen government departments and agencies have provided us with a report of their federalism initiatives to date. Time and space preclude discussing them all here. But from the Interior Department's swapping of its lands with those of Western states, to the transfer of surplus federal property to the states for use as prison facilities, and even to the nomination of Sandra Day O'Connor to the Supreme Court, the first Justice chosen from state government in over a quarter century, the President's "quiet federalist revolution" is well underway. (Summaries of each Agency's initiatives can be found on pages _____ through _____.)
- The President established the Presidential Advisory Committee on Federalism on April 8, 1981. Senator Paul Laxalt serves as Chairman to a membership which includes Cabinet members, state legislators, governors, mayors, county officials, Members of Congress and private citizens. The Committee is advising the President with respect to the objectives and conduct of the overall federalism policy of the United States.

The first meeting of the Advisory Committee was held on June 23, 1981. Since that time it was determined to divide the Committee into seven subcommittees in order to address issues in depth. Four subcommittees have already met: Revenue Source Return on October 22nd; Health and Human Services on October 29th; Housing and Urban Development on November 5th; and, Regulatory Reform on November 12th. The three subcommittee meetings to be held include Transportation on November 19th; Land and Water on December 2nd; and Education on December 9th. We expect the full Committee to meet again in early 1982.

- In an effort to provide states with sufficient information about implementation of the new block grants, eight regional "Block Grant Implementation" briefings were sponsored by the White House, OMB, and those federal departments with responsibility for administering the block grants (HHS, Education,

and Housing and Urban Development). The briefings attracted 4500 officials from across the country and contributed to the high response of states in assuming the block grants on October 1, 1981.

- ° The ten Federal Regional Councils (FRC's) have been re-structured to assist in implementing the Administration's policies on federalism, and to improve management and coordination of federal programs. The FRC's are assisting state and local governments to implement block grants as well.
- ° The President has devoted a great deal of personal time consulting with state and local officials. He has addressed the annual meetings of the National Conference of State Legislators, National League of Cities and has met with over 1200 state and local officials at the White House, often individually or in small groups of one or two dozen.
- ° During the months of October and November 1981, extensive consultations are taking pace with state and local officials regarding the FY '83 budget.
- ° For the first time in many years, the Executive Branch is participating actively in the Advisory Commission on Intergovernmental Relations (ACIR). (ACIR was created by Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of federal, state, and local government and the public.) For only the second time in its history, ACIR is now chaired by an Executive Branch member, Secretary of the Interior James Watt. The President has also appointed HUD Secretary Samuel Pierce and Richard Williamson, Assistant to the President for Intergovernmental Affairs, as members. The Administration is committed to energizing and utilizing the ACIR, and its active participation is a major step in that direction.

THE WHITE HOUSE

WASHINGTON

March 20, 1981

MEMORANDUM FOR MEMBERS OF THE CABINET AND AGENCY HEADS

As you know, one of the priorities of this Administration is to restore a proper balance among Federal, state and local governments. Enactment of our Program for Economic Recovery will be an important first step toward achieving that goal.

As we begin this process of restoring federalism to its proper place, each of the departments and agencies will have a role in terms of liaison and consultation with state and local officials.

First, an effective procedure for addressing intergovernmental relations problems should be established within your departments and agencies. Your senior intergovernmental affairs person should be an official of appropriate rank who will have ready access to you and who can be effective in representing you with state and local officials. I encourage you to be in touch with Rich Williamson, Assistant to the President for Intergovernmental Affairs, as you proceed on personnel and other decisions in this area. The White House Intergovernmental Affairs Office will be the central coordinating office within the Administration to oversee intergovernmental relations and the efforts required to implement our federalism objectives.

Second, state and local officials should be consulted about new Administration initiatives affecting their levels of government as such initiatives are being developed to ensure that the programs will be practical and effective. Further, any program, policy, or budget recommendations which you make should include a consideration of what the impact will be on state and local governments.

Third, once programs are enacted, they should be closely monitored to ensure that they do not create any unintended or undesirable effects on state and local governments.

The success of our initiatives will depend in large part on how warmly they are received at the state and local level. That reception will be greatly enhanced if we can have genuine consultations with governors, mayors, state legislators, county executives and other officials at the initial stages of program and policy development.

SUMMARY OF FEDERALISM INITIATIVES
BY DEPARTMENTS AND AGENCIES

Below are examples of the federalism initiatives taken by departments and agencies in the Reagan Administration since January 20, 1981. They are followed by a more detailed description of these agency actions.

ACTION

ACTION is studying ways to address national problems such as drug abuse and illiteracy through the expansion of volunteer programs. It is working closely with state and local government and the private sector in the development of these initiatives.

DEPARTMENT OF AGRICULTURE

- Secretary Block has proposed a new soil and water conservation block grant to permit the states to determine priorities and develop and implement programs to address their individual needs.
- Establishment of a nutrition block grant for Puerto Rico. This consolidated grant would eliminate the detailed nutrition prescriptions, financial reporting and accounting currently required by federal feeding programs, and would give the Commonwealth government the flexibility to target nutrition assistance in accordance with its priorities.
- With respect to the Tahoe Federal Coordinating Council, the President repealed an Executive Order to permit state and local governments to address the problems associated with Lake Tahoe without federal interference.

DEPARTMENT OF COMMERCE

- DOC has phased out eight federal regional commissions. These commissions often duplicate activities that would normally be undertaken by states without federal support and control.

- o DOC is also phasing out the Economic Development Administration to allow for greater responsibility at the state and local levels in community and economic development. EDA is assisting states and cities in the adjustment due to loss of funding.
- o ~~Programs that primarily benefit local jurisdictions~~ are being cut from the National Oceanic and Atmospheric Administration. Responsibility for these programs will be picked up by state/local and industry programs.

COMMUNITY SERVICES ADMINISTRATION

Terminated; many responsibilities incorporated into Community Services Block Grant administered by HHS.

DEPARTMENT OF EDUCATION

- o In an overall effort to expand the state role and minimize the federal prescriptive role in education, President Reagan has proposed the abolishment of the Department of Education.
- o The newly-enacted Elementary and Secondary Education block grant consolidated approximately 30 categorical grants.
- o Regulatory relief has been provided by revising the bilingual education requirements.
- o The Department has also deleted the appearance code provisions of the Title IX regulations. The federal government has no business passing legal judgment on such things as the clothing students wear or the length of their hair.

DEPARTMENT OF ENERGY

- o Energy Conservation block grants. DOE has recommended the repeal of existing energy conservation grant programs and is supporting an energy block grant to replace the existing categorical grants.
- o National Waste Terminal Storage Program. This is an R & D program for the permanent disposal of high-level nuclear wastes from commercial reactors. The states have been actively involved in this project.
- o DOE is developing a mechanism for a greater exchange of energy information between the federal government and states and coordinating data collection activities to ensure comparability and usefulness of data.

ENVIRONMENTAL PROTECTION AGENCY

Some of the highlights of EPA Federalism initiatives are:

- o In reviewing and finalizing State Implementation Plans (SIP's), EPA will simplify and expedite the approval of amendments and modifications.
- o The implementation of the CERCLA Act (Superfund) has begun with the ranking and designation of priority sites based upon state data and recommendations. Funds are being expended on the initial 115 sites as state cooperative agreements are executed.
- o Delegation of the wastewater treatment construction grants program to the states will be a high priority for FY-82. EPA is seeking ways to assist the states as they assume responsibility for this program.
- o State/EPA Agreements (SEA's) will be modified to encourage the states to negotiate their priorities with EPA and thereby create a stronger partnership.
- o EPA will assist as each state begins to administer its own compliance programs. EPA staff at both the national and regional level will assist state officials to interpret and analyze laws, regulations, and scientific data.
- o By allocating sufficient resources to the Office of Intergovernmental Liaison (IGL), the Administrator has committed the Agency to continuous consultation and cooperation with state and local elected officials.

Clean Air Act

The Agency will assist states in assuming delegation for and implementing the requirements of the Clean Air Act.

Special emphasis will be placed on streamlining the review process and eliminating the backlog of State Implementation Plans (SIP's) and Prevention of Significant Deterioration (PSD) permit applications. EPA will also facilitate and promote delegation of authority for assuring compliance with New Source Performance Standards (NSPS).

EPA has actively solicited the opinions of state and local officials and found the provisions of the Clean Air Act to be overly burdensome and costly on some states and localities.

The Administration's main goals were stated in President Reagan's Eleven Principles of Clean Air Act reform. Among those are:

"States should be accorded a full partnership in implementing the Nation's standards. The Federal Government will monitor state achievements of national health and welfare standards." (6th principle)

"Deadlines for achieving primary air quality standards should be adjusted to reflect realities in a particular area." (9th principle)

In summary, EPA would welcome changes in the Clean Air Act that would accord a full partnership to the states in implementing the Nation's clean air standards.

Hazardous Waste

A major goal for FY-82 is to implement the Resource Conservation and Recovery Act (RCRA) and the Comprehensive Response, Compensation, and Liability Act (CERCLA or "Superfund") to ensure that past and present hazardous waste sites do not contaminate underground water supplies or otherwise threaten public health or valuable environmental resources.

Resource Conservation and Recovery Act

The main goal of RCRA is to provide greater flexibility for the states to implement the programs.

Superfund

The Agency's concern is that the Superfund Act be implemented expeditiously.

The success in establishing an effective and comprehensive response program lies in state participation.

- o States can function as true partners in the implementation effort. EPA has already entered into partnership with nine states through cooperative agreements for remedial site cleanup activities.
- o In the area of enforcement, EPA will encourage the states to use their own authority to compel potential responsible parties to initiate and undertake response actions.

Construction Grants

The Administration is firmly committed to making the wastewater treatment construction grants program work as we continue delegation of this program to the states.

The challenge that faces us is how to achieve the goals of the Clean Water Act in the context of Federal budget constraints. To assist the states in assuming delegation, EPA is seeking ways to revise the grant regulations to provide greater flexibility for the states in administering the program.

State and EPA Agreements

Although not statutorily created, EPA has entered into planning agreements (SEA's) with most states in an effort to prioritize Federal and state concerns.

This tool enables top state and EPA officials to formally develop their mutual partnership goals. Realistic standards of performance and expectation of results are jointly developed.

Reductions in cost, duplication, and time are achieved and cooperation is enhanced.

Technical and Scientific Expertise

The Administrator has placed renewed attention on the quality of Agency scientific and technical data and scientific method peer review. By so doing, this Federal expertise will be shared and utilized by state and local governments.

Intergovernmental Liaison

The Administrator has committed the Agency to meaningful involvement with state and local elected officials in Agency planning and operation. To help accomplish this goal, the Agency has increased the size, experience level, and resource commitment of our Intergovernmental Liaison Office.

The Administrator has charged this office with the task of closely involving state and local elected officials in the deliberations and operation of the Environmental Protection Agency (EPA).

"In the future, EPA will contribute to a new federalism by constantly watching for ways to shift the decision-making process from the banks of this local, now much cleaner Potomac to the local courthouse and state capitals. We will desert an adversary role, and EPA will seek to bring State governments in as full and active partners in the achievements of our environmental efforts."

Anne M. Gorsuch, 5/21/81

- DOE is working with state and local governments to work out a compromise solution for eventual establishment of a national approach for meeting the requirements of state and local laws in transporting nuclear material through their territories.
- Acceleration of siting and licensing reviews for major energy facilities which assure quicker review time by states and localities.

ENVIRONMENTAL PROTECTION AGENCY

- In reviewing and finalizing state implementation plans (SIP's), EPA will simplify and expedite the approval of amendments and modifications .
- EPA will assist as each state begins to administer its own compliance programs. EPA's staff at both the national and regional level will assist state officials to interpret and analyze laws, regulations, and scientific data.
- Delegation of the waste water treatment construction grants program to the states will be a high priority for fiscal year 82. EPA is seeking ways to assist the states as they assume responsibility for this program.
- EPA is reconsidering its noise emission standards for garbage trucks. Noise pollution is a local matter and should be handled by local governments. There are less costly and more efficient means of dealing with this problem than requiring costly sound-proof trucks.
- EPA is working with state and local governments as a partner in our governmental system, rather than as an adversary as has often been the case in prior administrations.

HEALTH AND HUMAN SERVICES

- HHS is administering seven of nine recently enacted block grants: Primary Care; Maternal and Child Health; Preventive Health Services; Alcohol, Drug Abuse and Mental Health; Community Services; Low Income Energy Assistance; and Social Services.
- Regulations for the HHS block grants have been reduced from 318 pages to 6 pages in the Federal Register.

- o The regulatory relief from paperwork requirements for the HHS block grants will save state and local governments 5.4 million manhours in FY 82, an 83% reduction from FY 81.
- o Medicaid changes in the Budget Reconciliation Bill give states flexibility and provide incentives to eliminate inefficiencies and controls costs.
- o Secretary Schweiker has initiated a "fast track" system to modify, remove, or waive certain federal restrictions on state programs.

HOUSING AND URBAN DEVELOPMENT

CDBG?

States are being given greater flexibility and control through allocations of more housing units for state determination. Regulatory changes allow states to do their own underwriting of loans and set their own criteria for processing of subsidized developments.

Local control of public housing is being strengthened.

HUD is currently developing an Enterprise Zone program with a major role to be played by state and local governments.

An Urban Policy consistent with the principles of the New Federalism is being drafted which will enhance the ability of neighborhoods to engage in service delivery or economic development activities. Along the same lines, a HUD initiative is being undertaken to assess innovative relationships between neighborhoods and their state and local governments.

HUD is developing legislative proposals for streamlining the UDAG application and implementation process.

DEPARTMENT OF THE INTERIOR

DOI is developing and implementing a water policy that recognizes the primacy of state water laws.

DOI is transferring federal lands to states and communities for needed public purposes; over 390 requests have been requested by the states; most of their proposed action plans have been approved.

- o The Office of Surface Mining has been completely re-organized in an effort to develop a working partnership with the states instead of excessive and burdensome federal regulatory intervention to accomplish a national goal.
- o Secretary Watt has established meetings every six months -- in February and September -- with western governors to discuss land, water, and energy issues.
- o The Secretary has frequently referred to federal adoption of "good neighbor policy". A practical example is the federal government's willingness to swap land holdings of equal value (although not necessarily of equal size) to enable states to develop contiguous holdings and thus more efficiently utilize state lands.

DEPARTMENT OF JUSTICE

- o Communication and cooperation with state and local law enforcement agencies has been emphasized by the Attorney General in overall Justice policy. DOJ is deferring to state and local decisions in law enforcement matters when the federal jurisdictional interest is not clear.
- o Attorney General Smith's litigation notice policy requires prior notice to state Governors and Attorneys General before litigation against state government entities is commenced.
- o To assist the states alleviate the serious problem of prison overcrowding, the federal government has taken steps to facilitate the transfer of surplus federal property to states for use as prison facilities. To date, two surplus military bases have been transferred to Maine and New York for use as correctional institutions. Further transfers are under consideration.
- o The Justice Department has ordered U.S. Attorneys to set up coordinating committees with state and local law enforcement organizations and to begin a more cooperative approach to prosecutions.

PRISON REGS ?

DEPARTMENT OF LABOR

- o Delegation of more authority over worker's safety and health to the states.
- o DOL is putting resources into private sector initiatives to improve long-term employability of the low income-structurally unemployed, by providing them with skills that are marketable in the private sector.

DEPARTMENT OF TRANSPORTATION

- o DOT is continuing to ease regulatory burden on state and local government. DOT has revised Section 504 handicapped regulations which now allow localities to determine how to meet the needs of the handicapped.
- o The Metropolitan Planning Organization Regulations are being revised; Federal Highway Administration is reviewing all environmental regulations; FAA is reviewing every regulation; and DOT is reviewing all Executive Orders for those that are outdated or pose undue burdens.
- o The Department is attempting to draw a clear line between highways of high federal priority (such as the Interstate system) and highways that are essentially state or local in nature.

BLOCK GRANTS: A NEW DIRECTION
FOR FEDERAL GRANT-IN-AID

During the past two decades, the federal government has become an increasingly important source of funds for state and local governments. Local officials have looked to the federal government for fiscal resources and with the receipt of funds has come many regulations which constrain government from providing citizens with maximum use of their tax money.

Federal aid during the past two decades has developed into hundreds of specific categorical grants that serve narrowly-defined groups. The system has become a confusing tangle of small programs which overlap, conflict and overregulate. There has been a 1,243% increase in the cost of categorical grants during the past twenty years. In 1959, grant-in-aid programs cost \$6.7 billion which accounted for 1.4% of the GNP. By 1981, categorical grants had risen to approximately 600, costing over \$90 billion, and accounting for 3.5% of the GNP.

Shortly after his inauguration, President Reagan proposed the most far-reaching effort ever attempted in the consolidation of federal grant-in-aid programs. The President asked Congress to consolidate nearly 90 categorical grants into seven block grants.

Congress made significant amendments to the President's proposed block grants and, ultimately, consolidated 57 categorical grants into nine new or modified block grants with a budget authority of over \$7.5 billion. While the new block grants do not include all of the flexibility originally sought by the President for state and local officials, they represent a major departure from the heavy hand of federal control.

As the National Governors' Association commented in their August 1981 Governors Bulletin:

"Seven months after taking office, President Reagan has changed the direction of a federal aid system that was becoming increasingly rigid and fragmented ... (It) represents some progress toward greater flexibility for state and local officials at a time when aid to state and local governments is shrinking."

The Administration's implementation of the block grants has reflected the strong desire for increased simplicity and flexibility for state and local officials. For example, the federal government will not go beyond the statutory requirements, but rather will rely on state procedures and state interpretations of block grant statutes.

President Reagan demonstrated the reduced scope of federal regulations relating to the block grants during his October 1, 1981, nationally-televised news conference. The President held up two stacks of paper of differing sizes. In one hand he held the 318 pages of old federal government regulations needed to comply with the former categorical grants of HHS which were consolidated into seven block grants. In the President's other hand were just six pages of new government regulations needed to comply with the President's new block grant program.

The Office of Management and Budget estimates that the new block grant regulations will result in a reduction in the paperwork burden on state and local officials from 6.5 million manhours in FY 81 to 1.1 million manhours in FY 82, an 83% reduction.

In addition to the benefits of reduced paperwork and regulations, block grants have the following advantages:

- Block grants will decentralize decision-making to make government work again.
- They will permit government decision once again to be made by state and local officials who can be held accountable for those decisions.

- As the federal mandates and restrictions are lifted, significant administrative savings will result.
- Block grants will result in greater innovation and permit states to serve as true "laboratories of democracy."
- Enactment of the block grants will reduce the impact of the budget cuts by permitting state and local officials to target diminishing resources to areas and individuals whose needs are the greatest.

Although many states at first appeared reluctant to assume the new block grants, the vast majority of states accepted the block grants on the first date they were permitted to do so, October 1, 1981. (A summary of each block grant and the states' response can be found on pages ___ to ___).

The President intends to push for more block grants and to fight for increased flexibility in those which have already been enacted. As the President said to the National Conference of State Legislators last summer immediately following the Budget Reconciliation Process:

In normal times, what we've managed to get through the Congress concerning block grants would be a victory. Yet, we did not provide the States with the degree of freedom in dealing with the budget cuts that we had ardently hoped we could get. We got some categorical grants into block grants, but many of our block grant proposals are still up on

the Hill, and that doesn't mean the end of the dream. Together, you and I will be going back and back and back until we obtain the flexibility that you need and deserve.

The President is convinced that the best course of action is to return power and responsibility back to state and local governments. He has called upon members of his Administration and Cabinet departments to look for ways to slow the growth of the federal government, provide regulatory relief whenever possible, and to look for federal programs that can be better handled at the state and local level.

Block grants are an important federalist tool because they help to achieve those objectives. The President is committed to bringing government closer to our citizens, once again providing them with the decision-making responsibility to chart their future.

BLOCK GRANTS

ALCOHOL DRUG ABUSE AND MENTAL HEALTH

Covers:

- * Drug Abuse Project Grants
- * Alcohol Treatment and Rehabilitation
- * Alcohol Formula Grants
- * Drug Abuse Formula Grants
- * Mental Health Services

Date of Eligibility:

October 1, 1981, or subsequent fiscal quarters up to October 1, 1982.

Status - 11/1/81:
(State applications received)

Yes - 51 (46 states + District of Columbia, Puerto Rico, Virgin Islands, Northern Mariana Islands, American Samoa, and 210 Indian tribes)

No - 6 states (California, New Hampshire, Montana, Hawaii, Guam, Trust Territories)

Funding Authorization:

FY 1982 - \$491 million
FY 1983 - \$511 million
FY 1984 - \$532 million

Administration Appropriations Request for FY 1982:

\$432.1 million.

PREVENTIVE HEALTH AND HEALTH SERVICES

Covers:

- * Health Incentive Grants
- * Rape Crisis Counseling
- * Urban Rat Control
- * Fluoridation Grants
- * Health Education and Risk Reduction
- * Emergency Medical Services
- * Home Health Services
- * Hypertension Control

Date of Eligibility:

October 1, 1981, or subsequent fiscal quarters up to October 1, 1982.

Status - 11/1/81:
(State applications received)

Yes - 51 (46 states + District of Columbia, Puerto Rico, Virgin Islands, Northern Mariana Islands, American Samoa and 185 Indian tribes)
No - 6 (New Hampshire, New York, Hawaii, California, Guam, Trust Territories)

Funding Authorization:

FY 1982 - \$95 million
FY 1983 - \$96.5 million
FY 1984 - \$98.5 million

Administrative Appropriations Request for FY 1982:

\$83.5 million.

MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT

Covers: * Maternal and Child Health Services/
Crippled Children Services

- * Disabled Children (SSI)
- * Sudden Infant Death Syndrome
- * Hemophilia Centers
- * Lead-Based Paint
- * Genetic Diseases
- * Adolescent Health Services

Date of Eligibility: October 1, 1981, or subsequent fiscal quarters up to October 1, 1982.

Status - 11/1/81:
(State applications received)

Yes - 52 (47 states + District of Columbia, Puerto Rico, Virgin Islands, American Samoa, and Northern Mariana Islands)

No - 5 (New Hampshire, New York, California, Guam, Trust Territories)

Funding Authorization: FY 1982 - \$373 million, and each year thereafter.

Administration Appropriations Request for FY 1982: \$291.3 million.

PRIMARY CARE

Covers:

* Community Health Centers

Date of Eligibility:

October 1, 1982

Status - 11/1/81:
(State applications
received)

This block grant will not be
available until October 1, 1982.

Funding Authorization:

FY 1982 - \$286.5 million (\$284
million under categorical
authorities and \$2.5 million
for block grant planning
grants)

FY 1983 - \$302.5 million

FY 1984 - \$327 million

Administration Appropria-
tions Request for FY 1982:

\$2.2 million

SOCIAL SERVICES

Covers:

* Title XX Social Services

* Title XX Child Day Care

* Title XX Training

Date of Eligibility:

States must assume this block grant on October 1, 1981.

Funding Authorization:

"Such sums as necessary" - State and territory entitlement levels are:

\$2.40 billion -- FY 82

\$2.45 billion -- FY 83

\$2.50 billion -- FY 84

\$2.60 billion -- FY 85

\$2.70 billion -- FY 86 and succeeding years

Administration Appropriation Request for FY 1982:

\$1,974 million

COMMUNITY SERVICES

Covers: * Community Services Administration

Date of Eligibility: October 1, 1981, or subsequent fiscal quarters up to October 1, 1982.

Status - 11/1/81: Yes - 43 (36 states + District of
(State applications Columbia, Puerto Rico, Virgin
received) Islands, and Northern Mariana
Islands, Samoa, Trust Territories,
Guam and 180 tribes (of which 170
are state or federally recognized).
No - 14 (Connecticut, New Hampshire,
New York, Virginia, West Virginia,
Florida, Georgia, New Mexico,
Texas, California, Maryland,
Colorado, Montana, Alaska)

Funding Authorization: FY 1982-1986 - \$389.4 million annually

Administration Appropria-
tion Request for FY 1982: \$225 million

LOW-INCOME HOME ENERGY ASSISTANCE

Covers: * Low Income Energy Assistance Program

Date of Eligibility: States must assume this block grant on October 1, 1981.

Funding Authorization: FY 1982-1984 - \$1.875 billion annually.

Administration Appropriations Request for FY 1982: \$1.4 billion.

ELEMENTARY AND SECONDARY EDUCATION

Covers:

* 29 education categorical grant programs

Date of Eligibility:

July 1, 1982

Status - 11/1/81:
(State applications received)

This block grant will not be available until July 1, 1982.

Funding Authorization:

Chapter I - Financial Assistance to Meet Special Educational Needs of Disadvantaged Children
FY 1982-1984 - \$3.48 billion

Chapter II - Consolidation of Federal Programs for Elementary and Secondary Education
FY 1982-1984 - \$589 million

Administration Appropriation Request for FY 1982:

Chapter I \$2,474.4 million

Chapter II \$518.6 million

COMMUNITY DEVELOPMENT

Covers:	* Replaces community development block grant for small cities and rural areas.
Date of Eligibility:	60 days after regulations are published in <u>Federal Register</u> .
Status - 11/1/81:	Not applicable.
Funding Authorization:	FY 1982-1983 - \$1.1 billion annually.
Administration Appropriations Request for FY 1982:	\$225 million.

THE TASK FORCE ON REGULATORY RELIEF:
ITS IMPACT ON FEDERALISM

BACKGROUND

On January 22, 1981, President Reagan announced the formation of a Presidential Task Force on Regulatory Relief. The Task Force, chaired by Vice President Bush, has the authority to review pending regulations, study past regulations with an eye toward reviewing them, and recommend legislative remedies. The initial members of the Task Force were: Secretaries Donald Regan, Malcolm Baldrige, and Ray Donovan, OMB Director David Stockman, Policy Coordinator Martin Anderson, and Chairman of the Council of Economic Advisors Murray Weidenbaum. Dr. George Keyworth, the President's Science Advisor, joined the Task Force in October. Staff designated to coordinate the Task Force is Chris DeMuth, Executive Director; Richard S. Williamson, Associate Director; and C. Boyden Gray, General Counsel.

The Task Force is charged with three major responsibilities. First, it reviews all proposed rules, with emphasis on those that have a major impact on the economy or involve overlapping jurisdiction among agencies. Secondly, the Task Force assesses major Executive Branch regulations already on the books, especially those which

analysts have assessed to be particularly burdensome on the economy, and, thirdly, it develops legislation, where necessary, in the regulatory area.

The first major action taken by the Task Force was on January 29, 1981, when President Reagan sent a memorandum to eleven Cabinet members and the head of the Environmental Protection Agency ordering them to delay the effective dates of their agencies' regulations for at least 60 days and to refrain from issuing any new final regulations for the following 60 days.

THE TASK FORCE AND ITS IMPACT ON FEDERALISM

The Task Force on Regulatory Relief is a major part of the President's efforts to revitalize federalism. As we pursue our goals to return many of the responsibilities currently held by the Federal Government to state and local government, the reduction in bureaucratic red tape and the thousands of strangling regulations is a key component. The Task Force formally began its initiatives to reduce federal intervention at the state and local level on February 17, 1981, when the President signed Executive Order No. 12291, "Federal Regulation."

This Executive Order directs agencies to determine the most cost-effective approach in taking any regulatory action; authorizes OMB to review, comment and consult with agencies on new and existing regulations; and

establishes the Task Force's pre-eminence in coordinating the Administration's overall program of regulatory relief, including overseeing the development of legislation affecting regulations.

In determining the most cost-effective approach, the agency must, before taking any regulatory action, consider whether the regulation would result in a major increase in costs or prices for consumers, individual industries, Federal, state, or local government agencies, or geographic regions. This is a very significant provision because until the Reagan Administration initiated its regulatory program, costs to state and local governments were not taken into account, resulting in high administrative expenditures for these governments.

A recent example of lowered costs to state and local governments through less regulation is the implementation of the new block grant program. The Reconciliation Bill consolidated 57 categorical grant programs into 9 block grants. A majority of those block grants became effective on October 1, 1981, under the U.S. Department of Health and Human Services (HHS). The old HHS categorical grants had 1,100 pages of regulations. The new HHS regulations implemented with the new block grants add up to only 28 pages. (These pages, when

printed in the Federal Register, come to 318 pages under the old regulations and 6 under the new regulations.)

Furthermore, the Office of Management and Budget has analyzed that there will be a reduction for state and local governments of 5,414,375 fewer manhours required to comply with the new regulations as opposed to the old. This is an 83% reduction in manhours from FY '81 to FY '82 for state and local officials to comply with federal regulations.

It is expected from the information gathered by the various departments and agencies thus far that most states will choose to participate in all the block grants passed by Congress. Overall, the Administration can be pleased with the number of states that will participate.

In an effort to gather as much information as possible, the Task Force members sought to go directly to those affected by Federal regulation. In doing so, the Vice President sent a letter, in late March, to a number of groups, including state and local officials, requesting that they put in writing recommendations for the Task Force to consider in reviewing Federal regulations. To date, the Task Force has received a total of 450 responses covering some 3,000 suggested changes. Of these suggested changes, over 500 came from state and local governments. It is clear from the overwhelming response that state and local

governments need relief from excessive Federal regulation.

The Task Force has accomplished a great deal in reducing Federal regulation at the state and local level. To date, the Task Force has proposed or made final close to 60 regulatory actions that will either decrease directly the overhead costs to state and local governments or increase the discretion of state and local governments over regulatory matters with a state or local impact.

These actions include such items as:

1. Withdrawal of proposed bilingual education rules.
2. Withdrawal of standby energy conservation measures.
3. Withdrawal of Federal regulations for school dress codes.
4. Proposed changes in the Davis-Bacon regulations.
5. Changes in the regulations governing transportation for the handicapped (giving local governments more discretion in providing services.)
6. Review of affirmative action regulations.
7. Review of Medicaid regulations affecting states.
8. Review of Education and Handicapped Childrens' Regulations.

To date, the Task Force has completed reviews of over 2,500 regulations and 3,500 paperwork clearance requests. The number of pages in the Federal Register has dropped by over one-third during the first nine months of the Reagan Administration from the comparable period of 1980.

Estimated costs savings to the private sector and state and local governments from regulatory relief actions so far total \$1.5 billion in annually recurring costs and \$3.8 - \$5.9 billion in one-time capital costs.

In addition, the Task Force is seeking changes in the Clean Air Act to simplify the state implementation plan approval process at EPA as suggested by the National Governors' Association.

National Conference of State Legislatures

Remarks at the Annual Convention in Atlanta, Georgia. July 30, 1981

Mr. president and president-elect, from a President that hopes he can stick around for a while, I want to thank you and thank all of you for a most warm welcome and for this opportunity.

You know, as a former Governor standing before so many State legislators, I feel as though I should either ask for an appropriation or veto something. [Laughter] Some of my fondest memories are of my years in Sacramento, so I'm very pleased to be surrounded once again by those who believe in State government as devoutly as I do.

I also want to thank you for your support of our administration's economic program. I don't know who's happier about yesterday's events, me or Prince Charles.¹ [Laughter]

All of you in State government know full well what is at stake as we struggle to put in place our program for economic recovery. That program has four pillars: budget cuts, deregulation, monetary control, and tax reduction.

On the spending reductions, the Congress is finishing up the largest budget cuts that body has ever considered in the history of this country. The conference committee has completed its work and now, as you know better than anyone else, their work will go back to the House and the Senate for approval.

On regulatory relief, the entire Govern-

¹ Charles Philip Arthur George, Prince of Wales and heir apparent to the throne of the United Kingdom of Great Britain and Northern Ireland, married Lady Diana Frances Spencer on July 29.

ment is working to ease the burden. And someday, maybe the blizzard of paperwork will be just a light snowstorm for the private sector, for education, and for State and local governments.

We're working closely with the Federal Reserve Board to maintain slow and steady monetary growth. But let me hasten to point out: The Fed is completely autonomous, and the present interest rates are not part of our economic recovery program. [Laughter]

And last night, the most crucial and the most exciting item on our agenda for prosperity passed in the House and now will go with the Senate version to a conference committee. I've been thinking over and over what this tremendous vote on taxes will mean to our Nation and to our future. America is better off today than she was yesterday. America is more confident today. And the economic possibilities for all Americans are greater than they were 24 hours ago.

America now has an economic plan for her future. We know where we're going. We're going forward; we're going onward, and we're going upward. And as I said before, we're leaving no one behind. The outpouring of support from the people has been one of the most inspiring events I can remember. Since Tuesday morning, Washington has been filled with the voices of the people, the voices of democracy. They've been ringing throughout the Capitol. The Congress and the White House have been flooded with calls and telegrams from thousands and thousands of Americans in support of our economic program that crossed party lines and is truly bipartisan.

I believe our campaign to give the Government back to the people hit a nerve deeper and quicker than anyone first realized. The Government in Washington

has finally heard what the people have been saying for years—"We need relief from oppression of big government. We don't want to wait any longer. We want tax relief and we want it now."

The people of this country are saying that we've been on a road that they don't want to stay on. Now we're on a road that leads to growth and opportunity, to increasing productivity and an increasing standard of living for anyone. It was a road once that led to the driveway of a home that could be afforded by all kinds of Americans, not just the affluent.

The tax vote yesterday means that the independent businessman, the farmer, the shopkeeper will be able to look ahead for 3 years and see what the tax situation is going to be and thus be able to plan. The families who are struggling to keep up will not fall further and further behind while being pushed into higher and higher income tax brackets because of inflation. And as a result of this vote, the Government will not be able to tax away more of the people's money without voting on the record to do so.

When the details have been cleared away, let everyone remember this: The concepts at the heart of our first tax proposal remain intact. Yes, there were changes made, but not changes in principle. Actually, as I said Monday night, it just proved that more cooks were better than one, because we found legitimate proposals that could benefit the package even though we stayed within the total amount that we had thought was necessary to be reduced.

[Our bill cuts] the rates across-the-board for 3 years, and we cut them by the same percentage for everyone who pays them. This bipartisan bill has business provisions such as the accelerated cost recovery system, and last week we added in-

centives to further encourage investment in research and development. The bill will almost eliminate estate taxes, ensuring that family farms and family-owned businesses will stay in the family and won't have to be sold to pay the tax. And, incidentally, the thing that I'm happiest about of all is we end completely the estate or inheritance tax on a surviving spouse. There won't be any tax leveled when the inheritor is a husband or wife. And, of course, once those cuts are in effect, we've indexed them so that people won't be earning more and more but keeping less and less.

Yet, this isn't just an economic victory. It's a victory for our political system. It proves that our government and our institutions are capable of change when the people speak forcefully enough.

The American people have achieved a great victory for themselves with this vote. You know, there was much in the news about lobbying and arm-twisting and every kind of pressure, but what really sold this bill was the lobbying of the American people. They contacted their elected representatives in Washington, and it was plain they were ready to chart a new course to get this country moving again. My gratitude to the American people is as deep as my respect for what they can do when they put their minds to it.

With the help of these same Americans and with the help of the States, one of our next goals is to renew the concept of federalism. The changes here will be as exciting and even more profound in the long run than the changes produced in the economic package.

This Nation has never fully debated the fact that over the past 40 years, federalism—one of the underlying principles of our Constitution—has nearly disappeared as a guiding force in American politics

and government. My administration intends to initiate such a debate, and no more appropriate forum can be found than before the National Conference of State Legislatures.

My administration is committed heart and soul to the broad principles of American federalism which are outlined in the Federalist Papers of Hamilton, Madison, and Jay and, as your President told you, they're in that tenth article of the Bill of Rights.

The designers of our Constitution realized that in federalism there's diversity. The Founding Fathers saw the federal system as constructed something like a masonry wall: The States are the bricks, the National Government is the mortar. For the structure to stand plumb with the Constitution, there must be a proper mix of that brick and mortar. Unfortunately, over the years, many people have come increasingly to believe that Washington is the whole wall—a wall that, incidentally, leans, sags, and bulges under its own weight.

The traumatic experience of the Great Depression provided the impetus and the rationale for a government that was more centralized than America had previously known. You had to have lived then, during those depression years, to understand the drabness of that period.

FDR brought the colors of hope and confidence to the era and I, like millions of others, became an enthusiastic New Dealer. We followed FDR because he offered a mix of ideas and movement. A former Governor himself, I believe that FDR would today be amazed and appalled at the growth of the Federal Government's power. Too many in government in recent years have invoked his name to justify what they were doing, forgetting that it was FDR who said, "In the

conduct of public utilities, of banks, of insurance, of agriculture, of education, of social welfare—Washington must be discouraged from interfering."

Well, today the Federal Government takes too much taxes from the people, too much authority from the States, and too much liberty with the Constitution.

Americans have at last begun to realize that the steady flow of power and tax dollars to Washington has something to do with the fact that things don't seem to work anymore. The Federal Government is overloaded, musclebound, if you will, having assumed more responsibilities than it can properly manage. There's been a loss of accountability as the distinction between the duties of the Federal and State governments have blurred, and the Federal Government is so far removed from the people that Members of Congress spend less time legislating than cutting through bureaucratic redtape for their constituents.

Our economic package, which consists of tax cuts, spending cuts, block grants, and regulatory relief, is a first phase in our effort to revitalize federalism. For too long, the Federal Government has preempted the States' tax base, regulatory authority, and spending flexibility. It has tried to reduce the States to mere administrative districts of a government centralized in Washington. And with our economic proposals, we're staging a quiet federalist revolution. It's a revolution that promises to be one of the most exciting and noteworthy in our generation.

The bipartisan tax plan which passed the House yesterday is not only a critical element of our economic recovery, it's an essential element of our federalist plan, because the rate of taxation is closely linked to the power of the Federal Government. We're strengthening federalism

by cutting back on the activities of the Federal Government itself.

Our budget proposal is a dramatic shift in the growth of government. Without a structural shift of this kind, there's little hope for a long-term resistance to the burgeoning of Federal powers. Yet, our budget is more than a slowing of the growth rate of government; it reorders national priorities, seeking to return discretion, flexibility, and decisionmaking to the State and local level.

As State legislators, I know that you're tired of the Federal Government telling you what to do, when to do and how to do it, and with no thought of the whys or wherefores of it at all.

Well, a major aspect of our federalism plan is the eventual consolidation of categorical grants into block grants. Today there are too many programs with too many strings offering too little a return. In 1960, there were approximately 132 intergovernmental grants. The programs were in existence, costing slightly more than \$7 billion. By 1980, 20 years later, the number had grown to 500 programs costing \$91.5 billion.

Take just one area. In 1978, there were 35 programs for pollution alone. Now, the real costs of all this are just beginning to sink in. The State of Wyoming turned down a juvenile justice grant because it would have cost the state \$500,000 in compliance to get a \$200,000 grant. You remember the old gag we used to pull, "Have you got two tens for a five?"

[Laughter] The city of San Diego built a 16-mile trolley without Federal assistance, which is probably why it was accomplished within the budget and on time. [Laughter] I wish I could interest San Diego in taking over Amtrak. [Laughter]

You know, there's a joke that's almost too true to get a laugh, and that was the

city that decided that it was going to elevate, raise its traffic signs. They were 5-foot high, and they were going to raise them to 7. And the Federal Government stepped in and volunteered with a program that they'd do it, and they did. They came in and lowered the streets 2 feet. [Laughter]

Block grants are designed to eliminate burdensome reporting requirements and regulations, unnecessary administrative costs, and program duplication. Block grants are not a mere strategy in our budget as some have suggested; they stand on their own as a federalist tool for transferring power back to the State and to the local level.

In normal times, what we've managed to get through the Congress concerning block grants would be a victory. Yet, we did not provide the States with the degree of freedom in dealing with the budget cuts that we had ardently hoped we could get. We got some categorical grants into block grants, but many of our block grant proposals are still up on the Hill, and that doesn't mean the end of the dream. Together, you and I will be going back and back and back until we obtain the flexibility that you need and deserve. //

The ultimate objective, as I have told some of you in meetings in Washington, is to use block grants, however, as only a bridge, leading to the day when you'll have not only the responsibility for the programs that properly belong at the State level, but you will have the tax sources now usurped by Washington returned to you, ending that roundtrip of the peoples' money to Washington, where a carrying charge is deducted, and then back to you.

Now, we also are reviving the cause of federalism by cutting back on unnecessary regulations. The Federal Register is

the road atlas of new Federal regulations, and for the past 10 years, all roads have led to Washington. As of December 1980, there were 1,259 Federal regulations imposed on State and local governments. Of these, 223 were direct orders and the remaining 1,036 were conditions of aid; 59 of the requirements were so-called cross-cutting rules that applied to virtually all Federal grants. Accepting a government grant with its accompanying rules is like marrying a girl and finding out her entire family is moving in with you before the honeymoon. [Laughter]

Our regulatory task force, chaired by Vice President Bush, has already taken some 104 regulatory relief measures in the first 100 days of the administration. And of these measures, 34 provided significant relief to State and local governments on a range of regulations ranging from Medicaid to pesticides.

Secretary of Education Bell withdrew proposed rules that would have required a particular form of bilingual education—at a cost to school boards of over a billion dollars over the first 5 years. But while there's a need for bilingual education, it's absolutely wrong-headed to encourage and preserve native languages instead of teaching the language of our land to the non-English speaking, so they can have the keys to opportunity.

Just recently, on another front, Secretary of Transportation Drew Lewis modified transit accessibility rules that would have cost an estimated \$7 billion. Rather than imposing specific, rigid regulations, Secretary Lewis has allowed local communities themselves to decide how best to meet the transportation needs of the handicapped people in their areas. And that, my fellow citizens, is how federalism should work.

The job of relieving the Federal Gov-

ernment of the powers that it has so jealously built up over the years is a difficult one. Consequently, I asked Senator Paul Laxalt, who's been a Governor, to chair both an administrative task force and a Presidential advisory committee on federalism. These groups have been asked to examine ways to reduce the Federal Government's overshadowing power in our society and to do so as soon as possible.

Now, one of their goals will be recommending allowing States to fulfill the creative role they once played as laboratories of economic and social development. North Dakota enacted one of the country's first child labor laws. Wyoming gave the vote to women decades before it was adopted nationally. And California, during the term of a Governor Reagan—I wonder whatever became of him—[laughter]—we enacted a clear air act that was tougher than the Federal measure that followed years later.

And, incidentally, while it's true that I do not believe in the equal rights amendment as the best way to end discrimination against women, I believe such discrimination must be eliminated. And in California, we found 14 State statutes that did so discriminate. We wiped those statutes off the books. Now, if you won't think me presumptuous, may I suggest that when you go back to your statehouses you might take a look at the statutes and regulations in your respective States.

The constitutional concept of federalism recognizes and protects diversity. Today, federalism is one check that is out of balance as the diversity of the States has given way to the uniformity of Washington. And our task is to restore the constitutional symmetry between the central Government and the States and to re-establish the freedom and variety of federalism. In the process, we'll return the

citizen to his rightful place in the scheme of our democracy, and that place is close to his government. We must never forget it. It is not the Federal Government or the States who retain the power—the people retain the power. And I hope that you'll join me in strengthening the fabric of federalism. If the Federal Government is more responsive to the States, the States will be more responsive to the people, and that's the reason that you, as State legislators, and I, as President, are in office—not to retain power but to serve the people.

That great commentator on America that so many of us have quoted in speeches, de Tocqueville, once wrote, "There is an amazing strength in the expression of the will of the people, and when it declares itself, even the imagination of those who wish to contest it is overawed."

Well, de Tocqueville would still be awed by the will of the American people. As we've recently seen, even in our society of 225 million people scattered across an entire continent and complex in makeup, the people made their will known, and their elected representatives listened.

This final investment in the power of the people—this is the great drama, the great daring of the American experiment. It sparked our Revolution, it formed our Constitution.

Thomas Jefferson wrote, "I know of no safe depository of the ultimate powers of society but the people themselves." And it was Jefferson who reminded us that against the invasion of the people's liberty, the only "true barriers . . . are the state governments."

So today, fresh from our victories together, I ask you to join me in another great cause, another great revolution, and a great experiment.

Our intention, again, is to renew the meaning of the Constitution. Our aim is to rescue from arbitrary authority the rights of the people. Together then, let us restore constitutional government. Let us renew and enrich the power and purpose of States and local communities and let us return to the people those rights and duties that are justly theirs.

Now, after all this, let me say there are legitimate and very important functions of the Federal Government, of course—the maintaining of national security, for one; and for another, the protection of the constitutional rights of even the least individual among us, if that person's rights are being unjustly denied. In such a case, it is the responsibility of the Federal Government to restore those rights. And that is a responsibility that I will gladly accept, even as I do all I can to restore your autonomy under that same Constitution.

Thank you very much. God bless you.

NOTE: The President spoke at 2:04 p.m. in the Grand Ballroom at the Atlanta Hilton Hotel.

Republican Party Reception

*Remarks to Georgia Republicans and
Republican State Legislators,
July 30, 1981*

Thank you very much, and thank you all also for more than that and for all that I know you did to help. I have to tell you, it wasn't any one single victory. The victory goes to everyone, and I mean everyone in this country, as well as a great team there in Washington, and people on both sides of the aisle in Washington, who worked as hard as they could work. This truly was a bipartisan thing. Yesterday, they weren't Republicans or Democrats

ACTION

Federalism Initiatives taken by ACTION include:

- o Encouraging ACTION Project Sponsors to initiate or expand linkages between their volunteer programs and state and local governments and the private sector.
- o Addressing chronic, costly, national problems such as drug abuse and illiteracy by supporting successful private programs and assisting their expansion through volunteer resources.
- o Recognizing the importance of cooperative efforts by government and the private sector by safeguarding support for the State Offices of Voluntary Citizen Participation.
- o In cooperation with the White House, ACTION is preparing for a series of workshops on voluntarism between December, 1981, and February, 1982, designed specifically for state and local legislators and policy makers. The first workshop will take place on December 8, 1981 in San Francisco. Briefing books on voluntarism being developed by ACTION to help state and local governments establish voluntarism programs.
- o In keeping with the planned phase-out of the VISTA program by mid-1983, ACTION is emphasizing local support as an important component, to ensure that worthwhile VISTA-affiliated programs will continue to serve their communities beyond the time of VISTA's demise.
- o ACTION's most successful programs, the Foster Grandparents, Retired Senior Volunteer Program and the Senior Companion Program enjoy added respect and status under the Reagan Administration. While federal financial support for the programs remains unchanged, state and local governments' support is constantly on the rise.

DEPARTMENT OF AGRICULTURE

The Department of Agriculture is unique in that it is already decentralized to the state and local level, reaching into every county in the United States. With this decentralized structure in place, USDA is in an excellent position to implement the President's federalism initiatives.

USDA presently has a number of committees or other groups at the local and state levels such as the Farmers Home Administration county committees, Soil Conservation Service county committees, and forest advisory committees, which have working relationships with the agencies of state governments.

The Department establishes coordinating groups as the need arises to meet state-federal matters head-on. For example, the Grain Elevator Task Force was created to find ways to alleviate farmers' problems when a commercial grain elevator goes bankrupt. Also, the USDA facilitated the creation of the Grain Standards Advisory Committee to provide advice and counseling on administration of the U.S. Grain Standards Act.

The USDA/NASDA (National Association of State Departments of Agriculture) Task Force met August 27, 1981, in Washington, D.C., to discuss many issues of concern to state agriculture officials. Secretary Block and his top staff members attended the all-day session exchanging views and ideas with NASDA officials. (Secretary Block and Deputy Secretary Lyng are both former members of NASDA).

USDA works with state departments of agriculture in development of foreign export markets. USDA has formal agreements with four state agriculture trade associations whose memberships follow the four regional groupings of NASDA. All states with the exception of Arizona, Idaho, Montana and Wyoming are members of these state trade associations. Activities scheduled include recruitment of participants in overseas trade events, market surveys, and special promotional events at agricultural trade offices.

The USDA is currently planning to cosponsor a food and agricultural exhibition in May 1983 with NASDA. This exhibition, the first of its kind ever held in the United States, is targeted to have 600 to 700 U.S. food and agricultural exhibitors. It will involve all state departments of agriculture. The exhibit site is Atlanta, Georgia.

The transfer of responsibility is an integral part of USDA's rural development programs. For example, the Farmers Home Administration will spend more time working with the smaller, rural communities so that they can benefit from the professional services required for first-rate rural development.

Ten states and 81 counties will be involved initially in a new USDA project to help part-time and beginning farmers and ranchers become full-time and successful. The Department will bring together in a coordinated effort, local representatives of the public and private sectors who will volunteer to help the family farmers and ranchers plan for successful operations.

The Secretary of Agriculture has proposed new initiatives to improve the effectiveness of soil and water conservation programs administered by the Department. One of the key features is to strengthen the Federal-State-local partnership in conservation. It responds to a trend toward more State and local participation in designing and implementing soil and water conservation programs. The new initiative includes a proposal for matching block grants to determine priorities, develop and implement programs to address them at the State and local level.

USDA recently created an Information Resource Management Task Force (IRM) to improve utilization of information systems between the different USDA agencies in Washington, D.C., and on the State and local level. One of the main purposes of IRM is to develop an environment which will lead to improved resource sharing with the Department's field information offices, State Agriculture Departments, State extension personnel, universities, and private sector and individuals.

To improve state flexibility in the administration of Food and Nutrition Service programs, the Department has reduced reporting requirements, eliminated State plans of operation in most child nutrition programs and simplified the processing aspects of commodity donations. The Food and Nutrition Service has also set up a Regulatory Reform Task Force in the Food Stamp Program covering certification, State administration, issuance and recipient claims.

Initiation taken by the Agricultural Research Service include: 1) proposed transfer of research on tropical and subtropical agriculture from ARS to States with funding through the Cooperative States Research Service and 2) a plan to review in-house research programs with emphasis on determining the appropriateness of the in-house research role versus that of universities and the private sector.

The FY 1983 Departmental budget request for Cooperative State Research Service strongly emphasized block formula funds for the State Agricultural Experiment Stations compared to a greater emphasis on specific program grants in previous years.

The FY 1983 Departmental budget request for Cooperative State Research Service was 11 percent over the FY 1982 budget estimate compared to a proposed 8 percent FY 1983 increase for the in-house Agricultural Research Service program.

Reorganization announced by Secretary Block June 17, 1981, dissolved the Science and Education Administration and created four new program agencies. The new operating guidelines for the Science and Education agencies call for greater decentralization of decisionmaking in the science and education system.

Major emphasis has been given to obtaining input directly from the cooperating States, universities, private industry, and users of science and technology in developing science and education priorities and programs. This was done by inviting university representatives to participate directly in the decision-making process in which new priorities, policies and programs were developed.

Beginning with the Morrill Act (1862) which was the first major U.S. Government grant-in-aid program to be applied uniformly to all the States and territories, the general area of agricultural research, extension, and teaching has exhibited a uniquely functional partnership between the Federal Government and the governments of the sovereign States. The extraordinary success of the long-standing Federal-State partnership is attested to by the fact that federalism scholars routinely cite agricultural research, extension, and teaching as classic examples of successful joint Federal-State program cooperation, coordination, and implementation. Recent policy initiatives will serve to enhance and refine these historic relationships.

Pending legislation (1981 Farm Bill) provides for a strengthened National Agricultural Research and Extension Users Advisory Board by increasing the number of producer members from 4 to 8, thereby increasing the role of the private sector in the development of Federal-State agricultural research and education policy.

Increasing from 21 percent to 25 percent the amount of research funds to be allocated through the Hatch formula.

Joint Federal-State committees are exploring the character and quality of State level publications to assess which ones might profitably be utilized on a broader basis thus possibly obviating the need for certain Federal publications.

In FY 1981, \$2,500,000 were changed from earmarked funds in Title V, of Rural Development Act, to be distributed to the 50 states and Puerto Rico under the Smith-Lever Act.

The Department has recommended for the FY 1982 budget that: \$1,020,000 formerly earmarked for Farm Safety and that \$3,000,000 formerly earmarked for Urban Home Gardening in the 16 largest cities be distributed to the 50 states and Puerto Rico under formula funding.

The Secretary of Agriculture and the President of the National Association of State Universities and Land-Grant Colleges are establishing a high level Joint Committee on the Future of Cooperative Extension to recommend to the Secretary of Agriculture and Land-Grant University officials the appropriate mission, scope, priorities, and future directions for Extension. This committee should give serious attention to the question of greater autonomy for the States in choosing and administering programs.

USDA Forest Service

Small Tracts Act - S. 705. The Forest Service testified in support of legislation which broadens our existing authorities to make land exchanges. The bill would allow us to authorize exchanges with States and local governments, as well as with public school districts in return for cash for a portion or all of the value of the Federal property. This will simplify land exchanges with local governments.

RPA. The Renewable Resources Program will be updated for 1985. This update requires current data from many sources including State and local governments. Close working relationships have been established with State government through the State Foresters' Offices to provide a flow of information between the Forest Service and State government. State agency people are participating with the Forest Service in the design and application of the 1985 RPA Program process to further improve its usefulness.

Western States Legislative Task Force. Forest Service representatives continue to meet as needed with the Task Force to review and discuss policies and issues of interest to State and local government. An example is a recent meeting to discuss timber sale contract extension policies.

Economic Analyses. In cooperation with State forestry agencies, the Forest Service is analyzing cooperative forestry programs to better determine appropriate investment levels for nonindustrial private forest lands, who benefits from the investments, and who should pay. Significant studies included are (1) analysis of fire protection on non-Federal rural wildlands, (2) survey to determine why less than one-third of harvested land in the South is being reforested to pine, and (3) analysis of the efficiency of the Forestry Incentives Program (FIP).

Gypsy Moth Integrated Pest Management Demonstration Program. Gypsy moth-caused defoliation has gone from 645,000 acres in 1979 to 12,400,000 acres in 1981. The Forest Service, Animal and Plant Health Inspection Service, Agriculture Research Service, and the State of Maryland are initiating an integrated pest management pilot program in Maryland aimed at using a combination of innovative and traditional techniques to detect and manage enlarging gypsy moth populations where they could cause significant damage.

National Interagency Incident Management System. A basic emergency system, including fire suppression management, that all fire protection agencies can use. It provides commonality of organization, procedures, terminology, qualifications and standards and makes possible the effective exchange and use of firefighters.

Forest Taxation. Recent legislation has resulted in significant changes in forest taxation laws. The Forest Service, in cooperation with the Extension Service, Agricultural Stabilization and Conservation Service, Soil Conservation Service, State forestry agencies, and industry is developing a program to inform forest landowners of forest taxation requirements and opportunities.

Reconstruction of Service Center. A new effort has been initiated with the California Department of Forestry in a proposed cooperative reconstruction of the Redding, California Northern California Service Center to jointly house and service California, Forest Service, and Weather Bureau facilities.

Land Management Planning. Each of the nine Forest Service Regions are coordinating the Land and Resource Management Planning on Federal lands with planning efforts of the State.

Cultural Resources. To more completely involve the States, a rewrite of cultural resource directions is being coordinated with State Historic Preservation officers.

Minerals Reviews. A joint review process whereby State and county governments are considered full partners in decision-making on major mineral decisions has been developed. The review process results in a Memorandum of Understanding between the Forest Service and State and local governments.

Wildlife and Fish Management. A new effort to develop wildlife and fish population objectives cooperatively with State conservation agencies is underway. This will assist the Forest Service in planning for habitat capability needs.

DEPARTMENT OF COMMERCE

A. Centralization & Consolidation

Establishment of an Office of Intergovernmental Affairs

Reporting directly to the Secretary/Deputy Secretary, this office is charged with maintaining contact with the State and local government officials whose business brings them to the DOC. In addition, this office has the responsibility for monitoring the consistent approach in dealing with any one State or local official by the many and diverse agencies within the Department.

Establishment of an Under Secretary for Economic Affairs

The economic and business development activities of the DOC will be consolidated under this Departmental officer. The DOC's technical assistance information and national economic indicating facilities will be housed in this office. The emphasis of this unit will be to provide improved economic data for use by State and local government planners and private sector individuals from a central point.

B. State, Local Government & Private Sector Participation in DOC Policy Formulation

Enterprise Zones and Urban Policy

Agencies within the DOC (Economic Development Administration, Minority Business Development Agency, Office of the General Counsel) and the Office of Intergovernmental Affairs have been actively soliciting comments from constituent groups on alternate mechanisms for economic development with the goal of greater reliance on States, cities, and the private sector through concepts such as enterprise zones.

International Trade Administration (ITA)

Through the newly formed Office of Federal/State Liaison, ITA has been working closely with the National Governors' Association Committee on International Trade and Foreign Affairs for improved Federal/State trade promotion activities. ITA is involved in an ongoing series of export seminars throughout the country for State and local officials. ITA is working to reduce the costs to States for participation in trade shows.

FY 83 Budget Consultations

The Office of Intergovernmental Affairs has been arranging for constituent groups to comment on the FY 83 Departmental budget.