SLASH AND BURN BUDGETING: IMPLICATIONS FOR SOUTH CAROLINA COMMUNITIES

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The buzzword out of Washington for the last four years has been freedom. Freedom from federal regulations on what you do and how you do it, for states and local governments, for landowners and business firms. Freedom from federal strings tied to federal dollars. Freedom from unfunded mandates, the first point of the Contract with America to pass and be signed. Unfortunately, as too many communities know, freedom to do what you want without the resources to accompany that freedom is pretty hollow. And for us South Carolinians, there is another capital to reckon with, because the folks in Washington are not turning these decisions directly over to communities in most cases, but to the states. It's states that are now running the school lunch program, states that are dealing with welfare and workfare, states that get block grants and decide how they are to be allocated. And the buzzword in the General Assembly, unfortunately, is neither freedom nor resources. It's property tax cuts, and tax caps, and chop the fat and cut the budget. So there are definitely some storm clouds on the horizon coming out of both capitals that could impact city governments and county governments and local nonprofit organizations that together provide the glue that holds our fragile communities together.

My title, "slash and burn budgets: impact on communities" suggests an image of wholesale destruction as Congress takes machetes and torches to school lunches, food stamps, housing programs, summer jobs for teens, and welfare programs. But there are two sides to slash and burn. Not every program is a rain forest, a valued part of the ecosystem which will wither and die under the hot sun when its protective vegetation is the victim of slash and burn. Some programs are more like kudzu, where a little judicious slashing and burning results in some freedom and sunshine and open space for other vegetation to take root.

When I worked in DC, every time there was a threatened budget cut to an agency, we encountered the Washington Monument syndrome. This was shorthand for how agencies responded to threatened budget cuts. If Congress threatened a cut in the budget of the National Park Service, they would say, regretfully, that they would have to severely cut the hours of operation at the Washington Monument - easily the most popular tourist attraction in Washington and sure to raise a hue and cry from visiting constituents. As we learned in the Merchant of Venice, there is no way to take a pound of flesh, or fat, without spilling some blood. So the ultimate effect of this very different legislative environment on local communities is not easy to assess. Some good things are going to disappear, but so are some expendable ones. Let me back up a little to how we got where we are, and why, before we attempt to take stock of the threats and opportunities that lie just over the horizon.

How We Got Here Part I: Welfare and the Social Safety Net

Programs that Congress is putting on the chopping block for elimination, reduction, or consolidation into block grants didn't all spring full formed from the head of Lyndon Johnson in the 60s. Many go back to the 1930s, and some date from the Eisenhower or Nixon years.

The poverty relief programs that developed during the 1930s were in response to communities in crisis. Before the Depression, two of the biggest budget headaches, K-12 education and the poor, fell mainly to local governments and were paid for by the main local revenue source, the property tax. As land values fell sharply and mortgages were foreclosed in the 30s, tax collections at the local level fell even as the demands for relief by the unemployed were added to the normal needs of widows, orphans, the disabled and the elderly. A number of states, which had also relied on the property tax, adopted sales taxes to generate some revenue and come to the aid of their local governments.

But ultimately it was the federal government which got into the relief business with Social Security, AFDC, unemployment compensation insurance, and the early ancestors of SSI, all dating from 1935. These programs were expanded over the years, to include food stamps, Medicare, and Medicaid (under Johnson) and SSI and the Earned Income Tax Credit as well as expanded food stamps under Nixon. In many cases, states followed suit with what have been described as "little New Deals" to expand the social safety net and put in place some protective regulations. In fact, some states had beat Roosevelt to the punch, anticipating the New Deal with job creation schemes, public works programs, and social safety nets of their own.

This background is important because the federal and state roles in relieving individual poverty and providing a social safety net is under attack, and poverty relief is important to communities, especially poor communities. Although there has always been political grumbling, most of the complaints about welfare are relatively recent, dating back to the early Reagan years.

A lot of the complaints take the form of storytelling. The welfare mother in the Cadillac buying steaks with food stamps or the teenager having another baby to get a bigger welfare check. Someone has described these repeated urban legends as "governing by anecdote." When we look at the data we find that welfare recipients are overwhelmingly white, over 21, often educated, and average 2.6 children, but data doesn't speak to the frustrations of angry white men that dominate the agenda right now in Columbia and Washington. When we look at the data we find that welfare for corporations and welfare for the middle class and the rich -tax breaks, student loans, Social Security for the rich, subsidies for recreational facilities that poor people can't afford to use - these kinds of welfare dwarfed what was being spent on AFDC and food stamps.

The assumption behind the recent welfare reform is that a combination of block grants, work incentives, some state resources, and more careful on-the-scene management of poverty programs and revenues will somehow enable us to do more with less. These particular programs go mainly to individuals rather than communities, but the benefits are concentrated disproportionately in poor states - like South Carolina - and poor areas within those states, like the 6th Congressional District.

A strong case can be made for federalizing at least some part of poverty relief. If you leave it to the states, the survival of the poorest of the poor will depend on the resources of the state and the whims of the legislature. In an environment of intense competition between states for low taxes and inducements to industry, one of the first expenditure categories to get thrown overboard at the state level will be the needs of poor people and poor communities and poor neighborhoods.

There's a lot of similarity in the role that the federal government play in poverty relief and the role that state governments play in public education. Neither the quality of education nor the resources available to sustain the poor or help them get out of poverty should depend on the wealth of the communities in which the poor reside. There's an obligation of rich states to help poor states, and rich communities to help poor communities. The state is sometimes a mildly useful vehicle for this kind of redistriibution, but the federal government is even better. On poverty programs, there is indeed such a flow from rich states to poor states. So a consequence of scaling down the federal and state social safety net will be a wider gap in incomes between rich communities and poor communities.

That statement is not just blowing smoke. A study several year's ago by Senator Moynihan's staff verified that federal aid does redistribute among states. In spite of the pork barrel games, it does actually redistribute from rich to poor states. Southern states get a lot of military spending, even after the base closings. Entitlement programs are weighted toward poor people, who live in poor states. A lot of grant programs have formulas in them that favor poor states. So while some of the redistribution from rich to poor means from rich households to poor households, some of it is a little more indirect, from rich states to poor states. It helps to equalize the purchasing power among households, so people in poor states don't have to kick in a higher share of their income in state and local taxes to get the same level of services as people in a richer state. This second wave of domestic spending cuts and shifting to block grants is going to hit poorer states like ours harder.

The selling points of the redistribution part of the slash- and-burn agenda, of course, have been deficit reduction and local control. It's true that there haven't very many places in the budget to shop for spending cuts. The 11 percent of the federal budget that is grants to state and local governments is part of that relatively small 20-25% share of Federal spending that's really discretionary, that's not entitlements like social security and medicare and veterans' benefits, that's not untouchable like defense (which has been cut) or inevitable like interest on the debt. Even now that the deficit is gone, all discretionary spending will continue to be at risk in the next few years because it will still be too politically difficult to deal with the growth in health spending and Social Security, and there's no easy way to do anything about a big block of federal spending labelled "interest on the national debt." So communities can expect at worst more hits, and at best very little new or restored in the budget in years to come, depending on the performance of the economy which has thus far been the major factor in eliminating the budget deficit. With more of the federal money coming in the form of block grants, that any lobbying and grantsmanship games will be played in Columbia, not Washington. And it will be smaller pot for communities to fight for as the block grants are used to reduce funding.

A major concern for communities should be in further trimming of food stamps, WIC, and other anti-poverty programs that have sustained many people in poor communities and many poor people in more prosperous communities. These cuts will shift responsibility for those folks to the states - which won't do much - and from there to local communities, local governments, churches, and social service organizations. It's a tall order for Habitat for Humanity and the Salvation Army and the local Kiwanis and food bank and churches and homeless shelters. In South Carolina, if you look at local spending, you don't see much that is aimed at poverty other than CDBG funds and some limited efforts in housing, child care, transportation, and health clinics in some of the larger cities. Cities have their hands full with the basic functions of police and fire protection, enforcement of ordinances and codes, water and sewer, recreation, street lights and sidewalks and fixing potholes.

Along with the "no resources" stick, of course, is the freedom carrot. The buzzword here is local control. Behind that buzzword is the notion that fewer dollars stretched more effectively though local oversight, local experimentation, less bureaucracy, better knowledge of needs, better monitoring of abuses. From the other end of the tunnel, it still looks a lot like freedom without resources.

Grants to state and local governments

The second group of programs for communities, which focus on local public services and facilities rather than poverty relief, developed from the Eisenhower era to the Carter administration. In the 1950s, one of the biggest programs impacting communities was the interstate highway system, which did so much to determine which communities grew and prospered and which withered and died. Federal aid of all kinds to state and local governments nearly tripled from 1950 to 1960 during the supposedly staid, conservative Eisenhower years

The big growth in these aid programs for local governments took place during the 1960s and 1970s, up until 1978. Most common was the categorical grant for a specific purpose, some allocated on the basis of a need formula, some on a matching basis, some in response to a solicitation of proposals.

At the same time, the Eisenhower administration did make an unsuccessful attempt to turn back revenues and responsibilities to states. But that attempt was stymied by the perception in Congress that state legislatures were rural dominated, badly apportioned, and totally out of touch with their citizens' needs and priorities. Governors weren't much better. All it took to kill a turnback proposal was "Do you want Orval Faubus administering this program?" Visions of the governor standing in the schoolhouse door to keep minority children from entering would immediately spring to mind.

There were three forces at work in driving growing federal aid to communities as well as individuals. The first force was Johnson's War on Poverty, with food stamps, Medicare, Medicaid, Head Start, Legal Aid, and a lot of urban renewal and public housing that we later came to regret. Distrustful of state governments, there were more direct federal to local grants (like CDBG).

The second force was the always insidious influence of economists. The specific idea contributed by economists, notably Walter Heller, was that it was easier for the federal government to raise tax money, but the real needs were at the state and local level. General revenue sharing would allow redistribution from rich to poor states, guaranteeing more equal access to state and local public services even to people in poor communities. And general revenue sharing would tap the federal government's taxing capacity while ensuring that the money was spent where needs were greatest, which varied from community to community. Some revenue sharing went to states, but most of it went to cities and counties. GRS actually came about in the Nixon administration, but the idea originated in the Kennedy administration and was pushed by President Johnson.

The third driving force was the concept of seed money and stimulus in the many matching, categorical grants that encouraged local communities to become grant junkies, setting their own priorities aside to match their shopping lists to what was on sale in the Federal supermarket. Laboratories of federalism was one buzzword. Diversity. Grassroots. Local control. Some really good results came out of some of these grants: parks, educational programs, day care centers, job training facilities, conservation efforts. A lot of local communities built their water and sewer systems with federal monies. A lot of schools were able to deal more effectively with special needs children. A lot of communities were able to provide better transportation for the elderly, access for the handicapped, recreation for the young. And yes, there was a lot of kudzu in the rain forest, a lot of money unwisely spent.

Nixon finished what Johnson started. Nixon gave us the Earned Income Credit, expanded food stamps, the merger and expansion of welfare programs for the elderly, blind and disabled into SSI, general revenue sharing, and more categorical grants. Every city had grant seekers on the payroll, seeking to acquire their share of federal dollars, willing to reorder their local priorities to match federal incentives. And there were distortions of local priorities. The city might need a police station, but the federal funds were available for city parks, and on a matching basis. So funds that might otherwise have gone into the police station were snookered into parks by the bribe of a federal match.

The Reversal

When the reversal came, it came quickly. Federal grants to state and local governments peaked in 1978, but the real changes came four years later. Under the Reagan administration, block grants to states replaced a number of categorical grants in 1982, with a reduction in funding. The block grants not only cut spending but shifted responsibility to states, whose legislatures presumably were more trustworthy because they had all been through two reapportionments and were now somewhat more representative. General revenue sharing for states ended in 1984, and for communities, two years later. Unsuccessful efforts were made to reform welfare and reduce spending on individual poverty programs.

With Reagan's grant reforms, Federal grants to state and local government fell between 1980 and 1990 from 15% to 11% of the federal budget and from 22% to 16% of state and local general revenues combined. In just one area, public education, South Carolina saw the federal share of the revenue pie drop from 14% in 1980 to 9% in 1990. What we have experienced since 1994 is the second wave of that push to reduce federal entitlement spending (food stamps, welfare, Medicare, Medicaid) and federal discretionary spending, of which 11% is for grants to state and local governments.

What can we learn from that first wave? George Peterson at the Urban Institute has examined some of the effects of the first round of cutting by consolidation into block grants. Today,15 block grants, nine of them dating from the Reagan reforms, account for 7.5% of federal aid to states. There were some administrative savings, but only about 1/4 as much as the funding cuts. Some states kicked in money to offset federal cuts in aid to local governments, especially the loss of general revenue sharing, but in most cases, standards and services suffered. Remember, state and local governments had to be bribed to undertake some of these programs in the first place with federal cash, often on a matching basis. Taking away the match was equivalent to raising the price.

In addition, the freedom from federal guidance and direction about how to spend your matching local dollars is also freedom to pick up the operating, maintenance and replacement costs of buildings and roads and water and sewer systems built 20 to 30 years ago with federal dollars. It's the freedom to develop new communities without the kind of startup help in providing infrastructure that older communities got from the federal and state governments. Again, it's freedom without resources. And the number and dollars involved this second time is considerably larger than it was in 1982.

Why the sea change?

What led to this two-phase revolt against federal aid to state and local governments and income support for the folks at the edges of the system? I think there were several causes.

One was disillusionment. It was hard not to notice that associated with all this federal aid was an increased federal bureau-cracy, special interest groups that formed around programs, and the regulations and paperwork that accompanied an expanded federal role. This may sound like the rhetoric of the right, but there is substance behind that rhetoric, even if it's confused. I was a government worker for a year. I worked hard. So did my colleagues. It's not fat and lazy bureaucrats that are the problem. It's just setting too many good, capable, earnest, hard-working people doing things that perhaps ought not to be done, in regulation, in oversight, in other areas. Many regulations are costly for local communities; the new standards for landfills that make lining a landfill more costly per square foot than putting oriental rugs in your livin room are one. Water testing requirements are another.That's the kudzu part of the problem.

Along with the kudzu is a lot of valuable rainforest at risk of slashing and burning-federal protection for wetlands, water quality, product safety (especially in drugs), and occupational safety. It's the kudzu that people always point to as the rationale for spending cuts.

A second cause was resentment, related partly to very slow growth in real wages and incomes, increasing inequality, a decline in traditional blue collar manufacturing jobs, and a perception that gains for women and minorities in jobs and earnings were at the expense of white males. Some of this resentment was concentrated on entitlement programs, or affirmative action, but some of it was aimed at federal grant programs that favored the poor, or that were perceived as the source of an increasingly intolerable tax burden on an income that wasn't growing in dollars and was shrinking in terms of purchasing power. I occasionally tune into talk radio and I am shocked at the violence of the anger-toward the poor, the homeless, welfare households, the federal government, immigrants, just about any convenient target.

A third cause was changing national priorities, especially in the 80s, toward defense and tax cuts, toward the elderly and away from children, and away from the social programs that dominated the agenda in the earlier periods.

A more subtle fourth cause was the increasing privatizing of our democracy, an extension of the intensive individualism that is the defining characteristic of American society. If you follow the federal budget carefully, you will notice that there has been an increase in aid to individuals in the form of Medicare, Medicaid, Social Security, etc., as well as an increase in the amount of our income we get to keep because of tax cuts. These two changes were paid for in part by a reduction in federal and state aid to communities. So households, both rich and poor and in between, have more after-tax income to spend for food, clothing, shelter and other good things, but the communities in which they live have fewer resources to fix the potholes, collect the trash, and build the community centers and fire stations that are also an important part of our personal and collective well-being.

You could argue that if the people who live in those communities have more available funds, then they can choose to tax themselves to provide those shared services. They can, but they don't. Countless economic studies have verified what is known as the flypaper effect, the notion that money sticks where it lands. If the federal government and/or the state send money to communities, it gets spent on public projects, not on reductions in property taxes. If the federal government and/or the state sends money to individuals, rich, poor, or in between, very little of it finds its way into local government coffers. In fact, most local tax systems aren't very good vehicles for capturing a share of rising incomes for public purposes. Income taxes and sales taxes track earned income and spendable income, but local governments rely on property taxes, and the value of property doesn't rise or fall very much with changes in federal and state tax burdens. To get more revenue, local governments have to raise the dreaded mill rate. So the taxes turned loose by the federal and state governments don't necessarily become available to local governments. In fact, continuous cuts in federal tax rates have had a perverse effect on both local property taxes and contributions to local charities, because both cost less when you can deduct them at high tax rates on your income tax. When your marginal rate was 50%, the federal government was matching charitable contributions dollar for dollar. Now, at a marginal rate of 31%, they're kicking in less than a dollar in tax relief for every two dollars paid in property taxes or contributed to charity.

Regardless of what started this series of budget changes, the impact of these shifts in spending and taxing patterns on communities has been felt over a decade. Programs begun under federal stimulus had to be abandoned or picked up with state and local funding. The loss of general revenue sharing contributed strongly to increased county and city property taxes in South Carolina and elsewhere, fueling the property tax revolt around the country as well as here. The decline in federal aid to education has put further pressure on the property tax. Communities are getting squeezed in just about every direction-which brings us to...

Meanwhile, in South Carolina....

Let's turn our attention to Columbia, where the language is similar but the agenda is a little different. Like North Carolina, Palmetto Republicans state had their own version of the Contract, the Palmetto Pledge, and like Gingrich, they got it through the House but came up short in the Senate. Notice that in South Carolina, the word devolution-shifting responsibility down to lower levels-doesn't carry nearly as much weight as in Washington. We've always had a lot of central control in Columbia, and I don't think we can expect that pattern to change much any time soon. The average state collects about 61% of combined state and local revenue; in South Carolina, the state collects 70%. The average state devotes 34% of its budget to aid to local government; in South Carolina, it's only 26%. So a larger than average share of public funds is collected and spent at the state level in South Carolina.

There are at least three interconnected issues that have been bouncing around in Columbia for several years that have important implications for our state's communities. The first is the overall budget, and within the overall budget, state aid to subdivisions and state grants. The second is how we pay for education at all levels. The third is continued property tax relief, with the current focus on relief from taxes on automobiles.

The problem with the South Carolina budget really goes back to the 1990-91 recession. Most states were hit pretty hard with rising outlays-Medicaid, prisons, schools-and lagging tax revenues. Medicaid alone is now eating up an amazing 12% of state budgets. Many states bit the bullet and raised taxes, most often sales taxes, sometimes income taxes and gasoline taxes. South Carolina didn't. The state muddled through with a long stretch of no pay raises for state employees, cuts in state aid to cities and counties and higher education, playing shell games with assets and rainy day funds, keeping Barnwell open a little longer, deferring maintenance on buildings and roads-some of these devices cost the state its triple A credit rating. At the end of the tunnel was a $200 billion surplus. At the end of the tunnel, also, was a different cast of characters in the executive and legislative branches with a different agenda, not a return to the status quo ante.

There has been a lot of pressure to devote that surplus to any of a number of causes: business tax incentives, further property tax relief, college financial aid, building and rebuilding bridges. With Medicaid and corrections poised to eat up a large share of further revenue growth, local communities--counties, cities, school boards--have to play defense in order to maintain their share of the state budget. These local authorities have already seen a steady increase in the share of their budgets that comes from their own resources and a decline in the state's share. They have roads in need of paving and repair and not enough highway funds, water and sewer systems that are wearing out and no state funds to help replace them, too many portable classrooms and not enough permanent school buildings, and escalating bills for solid waste collection and disposal to meet federal standards.

The same argument for federal redistribution from richer to poorer states goes double for South Carolina, which has seen increasing divergence between the prosperous and growing counties on the coast, in the I-85 corridor, and around Columbia, and the poorer, off-the-beaten-track interior counties as well as those east of Charlotte and along the lower Savannah valley. It goes double not only because of bigger differences between rich and poor but also because the state has a parental relationship to cities and counties and some responsibility of ensuring access to basic public services. But that message isn't getting a big reception in the current legislative environment.

A significant part of that redistribution in South Carolina takes the form of state dollars for education, which releases pressure on the local property tax while meeting the state's obligation to equal education opportunity. But that redistribution declined from 58% of education funding in 1980 to 50% in 1990. The recent property tax relief for homeowners restored part of that state share, but not with any redistribution from richer to poorer districts; in fact, the lion's share of the funds went to wealthier urban and suburban school districts.

Back in 1993, what subsequently turned out to be an expanded property tax exemption for homeowners from school started as an innocent and relatively modest proposal by Billy Boan. Boan wanted to eliminate homeowners' school property taxes and replace the funding with a larger state share, including more sales tax, to meet the twin goals of more equalization of school funding and property tax relief. But somehow as that train gathered steam, it was also diverted onto a different track -- one headed toward property tax relief rather than equalization.Property tax relief is far from unique to South Carolina. It's been in the air since Prop 13 in California. But in most states, property tax relief has meant that the state takes some of the pressure off by paying for more of education or funding a homestead exemption or a circuit breaker so that when local governments have to raise property taxes they are less burdensome. In South Carolina, property tax relief became a form of total tax reduction rather than a redistribution of the tax burden.

So where's the silver lining?

The Pollyannas of strategic planning always encourage us to view threats as opportunities. Sometimes that's hard to do when you're under siege, but I think even these dark and stormy clouds carry some silver linings. Let me suggest some encouraging thoughts for communities, and maybe even find an opportunity or two.

The first silver lining is the consistent finding in public opinion polls that people trust their local governments much more than the state or federal government. They feel that they are more accessible, more responsive, and provide services that they see and use and appreciate on a daily basis. So, unlike the folks in Columbia and Washington, at least within the communities there's still a positive climate for dialogue between leaders and citizens. The second silver lining is that it's easy to overlook what's good about the way we do business in South Carolina. When I moved to this state 31 years ago, I was delighted to see that South Carolina, unlike my native state of Connecticut, took considerable responsibility for the schools. That funding freed up more of the local property tax to support such services as recreation, sidewalks, street lights, police, trash collection, fire protection, and city water. In Connecticut, small towns had wells, septic tanks, volunteer fire departments, snow removal, and maybe a part time constable, because the rest of the money went to support the schools. Even though South Carolina has edged away from that division of responsibility, we still have much better local public services than a lot of other states, which I attribute to the fact that the state picks an above average share of education funding, even if that share has declined.

The third silver lining, at least at the federal level, which may eventually get to Columbia, is a change in attitude toward local governments. There's a sense that they should be allowed to control their own destinies, set their own priorities. Freedom without resources is worse than freedom with resources, but better than no freedom and no resources. Without the lure of federal grants, cities may rethink their own spending priorities instead of letting Washington and Columbia decide for them.

The fourth silver lining is that adversity really does lead to creativity and to formation of partnerships. The state has encouraged formation of regional partnerships in areas such as solid waste disposal, and created options for consolidation of local governments. Every year I get to judge the J. Mitchell Graham Award at the County Association meeting, and I'm always impressed by the diversity of innovative solutions to problems and especially the creative partnerships. Cities contracting for services with each other. Cities and counties pooling resources for building inspec-tion and engineering services. Multi-county landfills. Social service programs provided jointly by local governments and community organizations, to get the most out of resources, to deliver services better or at lower cost, to meet the needs of the home folks. And that's where the action's going to be for the rest of the nineties and into the next century.So what's the bottom line? I think it is, first, that communities dig in and do the best they can with the resources they have, that local officials demand the freedom and the flexibility to use those resources as they see fit at the local level. And second, that those of us who serve these communities or work with these communities don't throw in the towel, that we get just as good at reading budgets and collecting stories and selling arguments as the folks with the machetes, pointing them in the direction of the kudzu and away from the rain forest.

We the people get the legislature and the Congress that we deserve. If we don't like what they do, we need to tell them, and we need to tell them why, and we need to offer some alternatives. Democracy may not be working at its best right now, but the machinery is still there, and it's up to us to try to use the government to create vibrant neighborhoods, healthy communities, and an inclusive nation of neighborhoods and communities that works for all of us.

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