DATE 1/29

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What infrastructure crisis?

HEYWOOD T. SANDERS

JUST A FEW years ago, the term "infrastructure" held little meaning for most people. Today citizens and policymakers alike increasingly subscribe to the notion that we suffer from an "infrastructure crisis," marked by deteriorating highways, bridges, and sewers. News stories regularly describe an infrastructure that is "rotting," "crumbling," or "collapsing." This conclusion is bolstered by historical and international comparisons of capital-investment spending, which ostensibly demonstrate a persistent national failure to invest in public works. Meanwhile, the recent recession has added urgency to calls for a massive effort to boost public capital spending, create new jobs, and restore our infrastructure to its previous glory. President-elect Clinton's plan for "Putting People First" calls for spending an additional $20 billion a year on everything from rebuilding highways to constructing high-speed rail lines. And the nation's mayors have identified more than $26 billion in immediate public works projects to help lead cities and the nation out of recession.

But while visions of greater economic competitiveness and a new WPA hold increasing political appeal, this idea of a vast and pervasive national infrastructure crisis has been built on very few statistics and a number of myths. America's public works are not falling apart. To be sure, public works did suffer from a spending decline in the 1970s. And some localities (and an occasional state) appear to face real problems of physical decay and deterioration. However, the root causes of these problems, even in many of our worst-off cities, are largely political rather than fiscal or economic.

The myth of declining spending

According to many reports, we are simply not spending enough on public works, in part because infrastructure ranks low on the priority lists of politicians. This "underspending" is often stated relative to spending in other industrialized countries, or to the value of our gross domestic product. But appropriate comparisons must adjust for differences across nations in the size and content of the public sector, and for the role and function of different types of infrastructure as well. When we make these adjustments, the underspending myth becomes evident.

The basic categories of infrastructure are highways and streets, water systems and supply, and sewer systems and wastewater treatment. Spending on these categories is almost entirely an activity of state and local governments, although federal grant assistance accounts for a substantial share of state and local spending. In terms of capital spending, the first category—highways and streets—is by far the largest, amounting to almost $26 billion of state and local spending in 1991 (this figure and all others in this section are expressed in 1987 dollars). Highway capital spending dwarfs spending on sewers ($8.32 billion) and water ($5.75 billion), as well as mass transit ($1.70 billion), according to figures from the Department of Commerce.

The trends in capital spending for these categories of basic infrastructure are quite clear, and contradict arguments about public inattention and government failure. Highway spending boomed during the 1960s, as we built the Interstate Highway System with federal grant funds. Then spending slipped during the 1970s, as revenues from gasoline taxes—by then the principal source of highway spending—failed to keep up with infla-

tion. But from a low point of about $17 billion in 1981, state and local highway investment increased regularly for nine straight years. The preliminary figure of $25.3 billion for 1991 represents a modest drop from the $26.7 billion of 1990. But the figures for 1990 and 1991 are just about equal to the annual average for the 1960s, the period of the great national investment in the Interstate Highway System, and spending will continue to increase over the next few years. Indeed, highway spending for the first half of 1992 proceeded at an annual rate of more than $29 billion. Even greater federal highway spending will be fueled by the new Intermodal Surface Transportation Efficiency Act, and state spending will be buoyed by a host of increases in state gasoline taxes enacted over the last few years.

new environmental requirements

The spending trends for the other two categories, water and sewer systems, tell a similar story. State and local capital investment for sewer systems boomed during the early 1970s with a boost from federal grants under the Clean Water Act. The postwar spending peak came in 1975, with just over $9 billion in capital investment. Then spending dropped off as federal aid declined in the early 1980s. Yet in 1991, spending on sewers reached $8.32 billion, just under the postwar peak. As with highways, spending has notably increased since 1985, notwithstanding a decrease in federal aid.

Capital investment for water systems has also moved steadily upward over the last decade. Spending in 1991 came to $5.75 billion, the highest annual expenditure in the nation's history. Public investment for water supply and distribution in 1991 was more than twice the annual spending of the early 1970s, even after adjusting for inflation.

Beyond the three basic infrastructure categories, spending on mass transit is the one clear exception to the pattern of steady long-term increases in infrastructure investment. Mass-transit facility spending through the 1980s has fluctuated from year to year, averaging about $1.5 billion (still considerably higher than the annual average of $750 million during the 1960s). But in the last four years, even mass transit has shown regular increases, with 1991 spending totalling $1.7 billion. State and local capital spending on airports, moreover, has been on the increase since 1982. Spending in 1991 amounted to $2.54 billion, just under the nation's historical peak in 1990 ($2.64 billion), and a almost 9,000 bridges deemed deficient. Clearly, bridge needs are very different across the states.

Individual states are responsible for most of their own bridge and highway maintenance, and some are doing a good job. Only 2 percent of Florida's bridges are deficient, and the figure for Oregon is 5.5 percent. Even in states with severe winter weather and problems caused by road salt—Minnesota (10.7 percent) and Maine (12 percent), for example—real structural problems are relatively modest. Yet other states, like New York and West Virginia, lag far behind national norms.

This uneven distribution is mirrored in other highway needs, such as pavement condition. According to 1989 data, the average percentage of "poor" quality roads across the states is 11 percent. In most states the problem is relatively small. For example, only 5 percent of highway pavement in Texas is in poor condition, and the proportion for Connecticut is only 3.6 percent. For other states, like Massachusetts (10.1 percent) or Michigan (10.8 percent) the needs approximate the national average. But a handful of states stand out with unusually poor roads. The "poor" percentage for Rhode Island is 26.8, while Idaho stands at 27.7 percent and Mississippi measures 22.9 percent. As with bridges, a small number of states look much worse than their counterparts, and these differences do not appear to correspond directly to varying weather conditions. A major federal spending program would obviously help a few poorly managed states, but only at the expense of others that have done a good job of maintaining their own bridges and highways.

Inexpensive repairs

A third great infrastructure myth is that it will cost huge sums of money to fix our "crumbling" infrastructure. Needs estimates during the 1980s from groups like the Associated General Contractors of America were often in the trillions of dollars, reflecting the cost of replacing thousands of bridges and a large portion of our street, highway, and sewer systems. These estimates tend to impress by their very scale, and may well have played a role in stimulating the increasing federal, state, and local capital investment of the last decade. Yet large cost estimates can conceal as much as they reveal, muddying safety prob-

lems with higher design standards, or including the "wish lists" of local officials along with vital needs.

Take the case of recent needs estimates for bridges and highways. The Federal Highway Administration's longstanding estimate of $51 billion to meet our national bridge needs has been widely reported in the media. But that figure covers a wide range of needs across all the states. Divided into some specific categories that reflect both governmental responsibility and immediacy, the $51 billion total looks a bit more tractable.

First, very little of this total involves structures on the Interstate Highway System, the most vital national transportation system with the greatest vehicle traffic. Interstate bridge needs come to only $3.5 billion—quite a manageable amount at a time when federal highway spending alone comes to more than $16 billion annually.

Indeed, the repair cost for structurally deficient bridges on the entire federal-aid highway system comes to only $19.1 billion. Recall that these deficient bridges represent the real "problem" category of potential safety difficulties. Another $12 billion of the total bridge-needs estimate is made up of "functionally obsolete" spans on the federal-aid system. These bridges may not meet contemporary standards, but they can often be improved (with better signs and markings, for example) at far less than the total cost of physical rehabilitation or repair. Finally, about $20 billion of the need total comes from bridges off the federal highway system. The quality of these bridges varies widely from state to state, as does the traffic they carry. In many cases, these bridges are the remnants of an earlier rural highway demand, and some proportion could be posted for reduced loads or actually abandoned with only modest public inconvenience.

While the $51 billion figure is impressive, we can probably manage our real problems for half that amount. And if bridges constitute a clear investment priority, current levels of capital spending by state and local governments are great enough to meet that amount over a few years. Part of the difficulty in assessing infrastructure need, however, is that "need" is a moving target, reflecting not only structural conditions (the "crumbling" and "decaying" that usually preface the term "infrastructure") but also changing definitions and preferences.

What is "need"?

Consider the most recent federal estimates for highway investment needs, completed in 1991. The FHWA's "improve 1989 condition and performance" model calls for eliminating a backlog of current highway deficiencies at a total cost of $400 billion. Annual spending would have to range between $60 and $68 billion per year, or almost three times current levels, to meet this total need. Yet 72 percent of the need amount reflects congestion and traffic-carrying capacity—the presumed requirement for continuing to add new lanes of highway to meet traffic demand. Only 28 percent of the spending would be devoted to improving or maintaining existing pavement quality. The "need" to add a vast number of new lanes of freeway and expressway, almost all in developed urban areas, generates an enormous figure for the purchase of land and right-of-way. In fact, many economists recognize that adding new lanes and new highways is about the least efficient way to deal with traffic demand at peak commuting times. Alternative pricing schemes or changes in commuting times and patterns could more effectively deal with rush-hour congestion. By lumping the massive cost of building new highways together with the more commonly understood issue of roadway quality, we can get an enormous "need" figure that is probably unnecessary and unattainable in the context of local highway politics.

The myth of vast infrastructure spending needs reflects not only national programs and policies, but local circumstances as well. Again, enormous needs in dollar terms can often be broken down into much more realistic assessments of required spending. One declining central city, St. Louis, provides just such an example.

A 1991 assessment of St. Louis' capital needs came up with a total of more than $239 million in spending requirements. With the city's existing capital spending coming to just over $8 million per year, the city would need some twenty-eight years to meet its current capital needs. Some of these needs reflect real short-term problems, such as replacement of underground storage tanks for $1 million and a new siren warning system. But other items reflect the city's failure to invest in maintenance and renewal for decades, like the $48.5 million item for renovating city parks. And other capital "needs" are simply wish-list projects that carry

some political payoff, like $15 million required for economic-development projects and another project to develop a "multimodal passenger terminal" to link trains, buses, and light-rail systems in the downtown core. Indeed, the city's capital-need figure even includes $35 million for renovating curbs and alleys that have received essentially no city attention since they were first built. Such a "need" could be addressed simply by assessing property owners for the cost of repairs, as many other cities have done.

Financing infrastructure

One final myth of urban infrastructure, particularly current in recent months, is the notion that state and local governments are so strapped and constrained as to be incapable of meeting their own needs. This view of state and local incapacity has been particularly heightened by stories of declining government revenues and fiscal cutbacks in the wake of recession. States and localities do face a tough fiscal time today. But those fiscal problems do not necessarily limit capital spending and infrastructure investment.

As noted earlier, the figures on state and local capital spending in recent years show steady and regular increases. Those increases have largely continued through early 1992. This continued pattern of steady or rising capital investment in infrastructure, even in a recession, is understandable in light of the mechanisms for financing public works. Highway building, the major spending category, is principally financed through motor-fuel and vehicle taxes tied to car ownership and mileage, which are quite resistant to economic downturns. Water and sewer system investment is similarly financed through dedicated user fees that reflect water usage and that remain quite stable over time. And for many local governments, the bond issues that support infrastructure construction are tied to specific revenue sources independent of national economic conditions. Indeed, voters have proven quite supportive of infrastructure bond proposals even in recent months. St. Louis saw the passage of a $1.5 billion airport expansion plan in November 1991. And voters around the country approved more than 75 percent of all non-education bond proposals voted on in 1991, including 98 percent of the more than $2 billion in proposed transportation bonds. Thus, while sales and income tax revenues have dropped for many state and local governments, the fiscal capacity to finance capital investment has remained.

Bad choices

While many state and local governments have been boosting infrastructure-related revenues and spending, some governments have chosen to avoid higher taxes or new public debt. This avoidance of infrastructure funding has not been a product of the "tax revolt" or a lack of public interest. It has instead quite often been the result of a failure of political leadership and initiative, with mayors and governors content to promote the politics of job creation while avoiding mounting public needs. These locales have *chosen* not to use their resources to invest in meeting their own infrastructure needs.

Take the case of highway investment. The vast bulk of revenue for highway maintenance and capital spending comes from taxes on vehicles and fuel, amounting to 78 percent of state highway revenues in 1989. For decades, fixed gas tax rates and fees provided a stable source of revenues. But in the 1970s and beyond, inflation substantially eroded the revenues from these sources. The fiscal solution was simple—higher gas taxes, just to keep up with inflation. But while some states regularly raised tax rates, others fell far behind. Take the case of two states, Iowa and California, with exactly the same gas tax rate of 7 cents per gallon in 1966. Iowa boosted its tax in 1978, 1981, and again in 1985. Today, after additional increases, that gas tax rate is 20 cents per gallon. California first raised its tax—to 9 cents—in 1983, and now it stands at 16 cents per gallon, lagging well behind other states. Some state governments have managed to boost tax rates and invest in bridges and highways, despite the possible political fallout from tax increases. But many state governments let highway investment fall in relative terms, despite evidence of need. New York has maintained an 8-cent-per-gallon tax without change since 1973, while neighboring Connecticut imposes a 25-cent-per-gallon rate.

For most cities, substantial spending on infrastructure projects requires the use of long-term debt, spreading the cost of highways, streets, and sewer systems over twenty or thirty years. Debt financing commonly requires direct public approval through

a vote to support a bond-issue proposal. While some locales like New York City have the capacity to issue debt without public approval, forty-two states require a vote. By approving a bond issue, the electorate also commits itself to the taxes required to repay it. Urban capital spending thus need not directly compete for local revenues with such immediate priorities as police protection or aid to the homeless.

Bond issues built the modern American city. In Chicago, for example, local voters faced a total of ninety-two individual bond proposals from 1910 through 1927, involving more than $230 million in new debt. That $230 million in bonds would translate into $1.8 billion in 1987 dollars. And the city's voters endorsed more than 85 percent of the value of these proposals, supporting more than $180 million in new bonds. It was this public support and the consequent investment that created the city's complex of boulevards and major avenues, built a new downtown bridge system, and paid for the development of North Michigan Avenue as a major business locale.

Bond votes provided the capacity for state and local governments to build and expand infrastructure through the 1950s and 1960s. The constant-dollar volume of state and local bond proposals on the ballot tracks the infrastructure-investment boom through the 1960s very closely, particularly when school spending is excluded. Although the annual volume would routinely increase in even, election years compared with non-election years, the overall trend was up during the first part of the post-World War II period. But after a peak of about $43 billion in 1968 (in 1987 dollars), the volume of bond proposals fell quite sharply during the 1970s.

Some of the decrease in proposed bond issues reflected changing political realities. The voters' mood changed in the early 1970s, and a far greater proportion of bond proposals were voted down. That shift presaged the "tax revolt" of the mid-1970s and the adoption of California's Proposition 13, for example. State and local elected officials no doubt responded to the public's aversion by avoiding new bond proposals. And an increasing volume of relatively unrestricted federal aid (under the revenue-sharing and Community Development Block Grant programs), as well as new assistance for sewage treatment and sewer systems, may well have offered elected officials an alternative source of capital-investment funds. The ultimate result was a dramatic drop in the volume of bond proposals on the ballot. That reduced level of voted proposals has continued in recent years. Thus in 1991, the voters faced a total of $6.66 billion in non-education bond proposals (in 1987 dollars) and approved 77 percent. The 1991 proposal amount was actually less than the volume in 1987 and even slightly less than the value of bond proposals in 1981. Most remarkably, after adjusting for inflation, the 1991 bond proposal amount was only 27 percent of the amount voted on in 1969.

Investment in infrastructure has long been tied to popular support. Today, the public's approval rate for new bond issues, particularly those for transportation infrastructure, continues to be substantial. What has changed is the set of investment choices that voters face. In city after city, bond proposals have all but disappeared from the ballot. Promoting bond issues and capital spending carries with it political risk, and the appearance of raising local taxes. Even though the level of state and local infrastructure investment has soared in recent years, the fiscal choices faced by the voters remain quite limited. The result has been a dramatic shift, both in what government builds and where it is built.

Spending in St. Louis

The shifting politics of local infrastructure investment can be readily seen in the case of an older central city like St. Louis. For decades, St. Louis financed its capital spending with bond issues approved by the voters. These paid for everything from a city auditorium and civic center to a new hospital, streets and highways, parks, and urban renewal. These bond issues translated into regular increases in the city's debt. The city's general obligation debt increased from $72 million in 1950 to $128 million in 1960 and almost $150 million in 1968 (all in nominal dollars). But the city gradually began to move away from capital spending during the 1970s. By 1980, its debt had fallen to $86 million. Adjusting for the impact of inflation, the drop was even more remarkable. In 1987 dollars, debt fell from $395 million in 1970 to $90 million in 1980. And during this period, the city's capital spending from its own fiscal resources effectively evaporated, falling to only $18 million by 1992 (again in 1987 dollars).

The general move away from bond proposals by many cities, beginning in the 1970s, was certainly evident in St. Louis. One major package of bonds totalling $110 million was largely defeated in 1974. The city's reluctance to address capital-spending needs continued well after that date and through the 1980s. Only two small bond proposals appeared on the ballot in the 1980s, for a police-communication system and fire stations. Both passed with more than the required two-thirds majority. The city's current debt amounts to only $18 million, compared to the $90 million of 1980 and the $575 million of 1960 (all in 1987 dollars).

The debt decline has also had a marked impact on property taxes. In past decades, new bond issues meant stable or increasing property taxes for bond repayment. But with no new bond issues, the city's property taxes have been dropping year by year, although the majority of the city's assessed value consists of commercial real estate that provides a solid tax base.

Convention centers, stadiums, and airports

The modest level of debt and infrastructure investment in contemporary St. Louis is only one part of the city's public spending story. The city has proven quite adept at financing and building certain projects in recent years. These projects just do not include streets and bridges.

The one major bond proposal that did reach the voters in recent years, as mentioned above, called for a $1.5 billion expansion of Lambert-St. Louis International Airport, a scheme promising the creation of thousands of new jobs and local economic growth. Despite an absence of detailed planning for the expansion project and much local debate, the city's voters provided a 64 percent majority in favor of the revenue bonds. The city is also in the process of developing two major new public facilities in the downtown business district. The city's convention center, originally approved by the voters in 1972 and opened in 1977, is currently being expanded at a cost of almost $120 million. The convention-center expansion is being financed by an independent public authority, neatly avoiding constraints on the city's spending (and the requirement for voter approval of bonds). Still, the city is obliged to spend almost $10 million per year under a lease arrangement.

Adjacent to the convention center, the city—along with the state and county—is financing and building a new domed stadium to serve a hoped-for National Football League team. The stadium project will cost another $245 million, with the city contributing $60 million. Once again, there was no public vote on the project, despite its roughly $6 million in annual lease payment cost to the city. Compared to St. Louis' current capital budget of $6.6 million, the annual spending for the dome and convention center represents an enormous fiscal commitment. St. Louis clearly has developed a kind of "two-track" system for funding capital investments. Some needs, like streets, bridges, and parks, have been consistently put on the back burner or ignored. Other capital projects—principally those targeted to attract tourists or boost the fortunes of the downtown core area—have received substantial support. These projects enjoy their own dedicated revenue sources, such as a restaurant-meals tax for the convention-center expansion, and are therefore not obliged to compete with other public needs.

The choice of convention centers, stadiums, and airports as public-spending priorities serves to aid local business interests and holds the promise of boosting economic growth. Moreover, it can be advantageous to a big city mayor (like St. Louis' Vincent Schoemel or former Atlanta mayor Andrew Young) who seeks to run for higher, statewide office with a record of low taxes and expansive new job creation. But it can also mean that other, longer-term needs are avoided or deferred.

St. Louis, like many other cities, undoubtedly has infrastructure needs and a host of other urban ills. But its funding choices reflect a political problem that would not necessarily be solved by a one-time infusion of federal dollars. Federal assistance would have to be filtered through the same local political system that has consistently sought to avoid bond proposals, limit voter review, constrain capital investment, and boost the economic fortunes of downtown. Indeed, when "no strings" federal revenue-sharing arrived in 1972, the city employed most of the new aid to substitute for city revenues in paying for the original development of the Cervantes Convention Center. When short-term federal assistance for local public works became available in 1977, city officials chose to build a pedestrian connection between the

Convention Center and downtown buildings, along with other public works.

The St. Louis case is not unique. Other major cities, including Atlanta, Kansas City, and Cleveland, have succeeded in avoiding new bond proposals and in limiting their capital investment. In Cleveland, the voters last faced a bond proposal on the ballot in 1969. The inevitable result has been a drop in real city debt and a mounting toll of infrastructure need, even as investment in economic development projects and convention centers has soared.

Chicago's recent flooding catastrophe provides an example of just this sort of policy mismatch. Even as the collapse of part of the downtown tunnel system serves as a symbol of aging infrastructure and presumed urban need, Chicago is embarking on the largest single public building project in its history, a plan to enlarge its McCormick Place convention facility by more than 60 percent, adding one million square feet of new exhibit space, with a total price tag of $987 million. Although some argue that the new McCormick Place will eventually pay for itself and generate thousands of new jobs in the city, construction will require new taxes on downtown restaurants, automobile rentals, and local hotel rooms, and a special airport departure fee.

State priorities

The relationship between infrastructure "need" and the question of political choice can also be seen in state spending decisions, where there is often a preference for new building and economic development. Take the case of Texas. The state reported almost 1,000 structurally deficient federal-aid bridges in 1990, and another 3,644 bridges were deemed "functionally obsolete." That leaves Texas with the second largest total of "bad bridges" in the nation, right behind New York. Yet Texas has ample resources of its own to invest in bridge renewal and repair. It has steadily raised its gasoline tax in recent years, from 5 cents a gallon in 1984 to 20 cents today. And in 1991 the state spent about $3 billion on highways, including almost $1.8 billion on new construction. These expenditures include millions for widening Interstate highways, double-decking freeways, and building entirely new roads (including one providing access to a new theme park in San Antonio). The state could clearly address—and solve—its bridge problems with its own resources if it chose.

There is no particular reason for Texas to renew or replace all those thousands of bridges which add to the national totals of "need." Many of them carry light traffic loads or serve limited areas. The "functionally obsolete" bridges may simply have narrow shoulders or be subject to occasional flooding of the roadway. Indeed, the state's preferences are clearly shown by the way it spent $568 million for maintenance in 1991. Bridge maintenance received merely one percent of the state's total maintenance spending. To build a national policy on the assumption that Texas should replace or renew all of its 4,635 troubled federal-aid-system structures makes little sense. Just as St. Louis chooses convention centers rather than parks or bridges, so states quite commonly choose new construction and expansion over renewal and rehabilitation. Sometimes this is appropriate; sometimes it is not.

Restructuring choices

Thus, the central issue in dealing with contemporary infrastructure needs is restructuring the choice process at the state and local levels, and encouraging all levels of government to invest seriously in reasonable renewal and rehabilitation efforts rather than in new development. Federal highway policy should begin to emphasize renewal and repair over new construction, rewarding those states that increase their own fiscal effort with greater federal aid. Aid for bridge replacement and renewal should also encourage state-level effort and attention, rather than promoting the perverse set of incentives whereby an ever-larger count of "bad" bridges helps states secure more federal aid. If some states can manage to care for their stock of bridges and highways, they should properly serve as national models and be supported by national investment policy. Federal policy should promote attention to real infrastructure needs. The contrast between rusting bridges and brand-new stadiums in cities like St. Louis and Atlanta starkly demonstrates that more dollars alone will not provide a solution to those infrastructure problems that do remain around the United States.

In praise of pork

JOHN W. ELLWOOD & ERIC M. PATASHNIK

In a White House address last March, President Bush challenged Congress to cut $5.7 billion of pork barrel projects to help reduce the deficit. Among the projects Bush proposed eliminating were such congressional favorites as funding for asparagus research, mink reproduction, and local parking garages. The examples he cited would be funny, said the President, "if the effect weren't so serious." Bush announced he would work with House Republicans to bring these items to a vote individually—a strategy designed to embarrass congressional Democrats before the November elections by forcing them to take public stands on scores of questionable programs.

But Bush never received the individual votes he wanted. What he got instead was a one-shot $8.2 billion omnibus spending-reduction package, passed by veto-proof margins in both the House and Senate. While the measure's budget reductions far exceeded the amount requested by the President, it left intact most of the specific programs that Bush had targeted for extinc-

REPUBLICAN GOVERNORS ASSOCIATION

TOWARD A NEW FEDERALISM:

LEGISLATIVE PRIORITIES

FOR THE 103RD CONGRESS

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FEDERAL MANDATES

Perhaps the single greatest burden states and local governments face is unfunded federal mandates. The growth of unfunded mandates in recent years has been astronomical. For example, the 101st Congress passed legislation imposing twenty mandates expected to cost the States in excess of $15 billion. Countless other proposals were introduced, and several were passed, in the 102nd Congress that impose unfunded burdens on states. Unfunded mandates are passed on in countless, often unexpected bills. For example, states will be forced to expend $2 billion of our own resources in 1993 to provide services for refugees and immigrants. Particularly in these times of fiscal austerity, states simply cannot afford to be saddled with the costs for additional federal initiatives.

It is critical that Republican members of Congress oppose, and President Clinton veto, any legislation that imposes further mandates without also providing adequate funding necessary for the States to provide these services.

While unfunded mandates are the greatest problem, they are also symptomatic of the more general practice of federal preemption of state roles and micromanagement of the States' affairs. Greater discretion is necessary for states to innovate and undertake reforms in attempting to develop local solutions to numerous problems we all face. **Governors, the Congress, and the Clinton Administration must work together to define more comprehensively state and federal authority and funding sources for a wide variety of programs.** Potentially, such an effort could reduce overlapping layers of bureaucracy, economize federal, state and local resources, and produce more effective programs at each level of government.

Although both Presidents Reagan and Bush issued proposals to create a "New Federalism" that recognized the need for a careful balance of federal and state roles, the proposals were controversial and received little consideration from the Congress. During the last campaign, then-Governor Clinton pledged "a new reality and partnership with state and local government." Additionally, there are indications that President Clinton also intends to seek consensus on a federalism proposal that will more fully define state and federal responsibilities. Republicans in Congress can play a significant role in ensuring the success of such an initiative.

Republican Governors are prepared to work closely with Congress and the administration to develop a comprehensive "New Federalism" program. One possible approach is a block grant program that consolidates a variety of functionally related programs. The fundamental objectives for a "New Federalism" partnership should include:

* Providing States with greater discretion and flexibility in utilizing federal grants to tailor programs that best meet local needs;

* Reducing burdensome regulatory requirements that are costly for federal and state governments to maintain;

* Reducing the complexity of intergovernmental programs by clarifying responsibilities of the federal governments and the states.

HEALTH CARE AND MEDICAID REFORM

President Clinton repeatedly has said that his first priority will be to work with the Congress to find a solution to the health care crisis. Because states are heavily involved in the regulation, funding, and delivery of health care, governors have a unique perspective into some of the current problems that have caused the crisis, and in many cases have begun to tackle some of these problems at the state level. **Real, workable health care reform solutions cannot be achieved without Governors' insights and involvement.** Republican Governors are involved in a bipartisan effort to outline a common states' position on health care reform and are eager to contribute to policy discussions during the 103rd Congress.

Naturally, governors are involved most intimately with the management of the Medicaid program. Medicaid has continued to become a growing burden for states, largely because the bulk of unfunded mandates are enacted in this program. Medicaid expenditures currently account for 15 percent of state budgets, and they are forecast to consume 28 percent by 1995. **There is a clear consensus among governors of both parties that basic reforms are needed both to ease the State's burden and to improve the delivery of health services to people in need.** Potentially, the program could be overhauled as part of a "New Federalism" initiative. Even less comprehensive changes would have a significant positive impact. For instance, the National Governors' Association has compiled a list of 27 specific suggestions for improving Medicaid that require legislative action (The list should be provided to the Republican Congressional Leadership at our meeting). **Notably, governors believe that the waiver process should be streamlined to make approval less cumbersome for common-sense approaches that demonstrated success.** Among other things, Governors would also like to see the following changes made in this program:

* Repeal of the Boren Amendment, which has imposed crippling costs on states;

* Repeal the 75/25 enrollment mix requirement on health maintenance organizations participating in Medicaid;

* Permit states to use single managed care entities; and

* Repeal costly Permission Screening and Annual Resident Review (PASARR) requirements, because the intent of this legislation can be met much more efficiently and effectively through alternative means.

EDUCATION DEREGULATION

Governors want to work in partnership with the Congress and the Clinton Administration to meet the six National Education Goals. In order to do so, this nation must commit itself to high national standards and give states and local school districts the flexibility and freedom to achieve them.

Through the National Education Goals Panel, governors of both parties have been actively engaged in Bush Administration efforts to establish world class outcome-based standards, and a voluntary system of assessments aligned to them. Republicans should work in partnership to codify the Goals Panel and to provide congressional authorization for content and student performance standards and a voluntary system of assessments.

Governors are convinced that true systemic change in education cannot occur without substantial deregulation of the education system, which is more highly regulated than most U.S. industries, and want to work with Congress and the Clinton Administration to reduce over-regulation. Republican governors strongly oppose federal imposition of so called "school delivery" standards which would prescribe the programs states and school districts must provide to meet the National Education Goals.

The nation currently faces two contrary situations: the need for relevant information about our education system, and excessive reporting requirements imposed on our schools. On the one hand, our experience with the six National Education Goals clearly points to the need for better, more relevant information to assess our progress toward the achievement of the education goals. Governors and other policy makers who are involved in working to improve the education system need that information to make better policy decisions.

Yet, at the same time, our schools already are over-regulated and over-burdened with data collection demands. For example, a recent study of Ohio schools found that a school or district might have to submit as many as 330 reports totaling over a thousand pages during a single year. Although more than 50 percent of the paperwork burden results from a wide range of uncoordinated federal reports and auditing requirements, the federal government supplies only 5 percent of the funding for our schools. This burden is no less great on state education departments.

Republican Governors urge the Congress to address the perplexing problems caused by the lack of coordinated data collection and forms requirements imposed by the Department of Education during reauthorization of the Elementary and Secondary Education Act. While important coordinating efforts are being made in a few isolated cases, it is critical that those efforts impact the entire Department if they are to be successful. The Governors, the Congress, and the Administration must work together to facilitate the internal changes necessary to streamline the federal information collection process and make it more responsive to the needs of policy makers in the Congress and the fifty states.

In addition, Republican governors applaud the Bush Administration's efforts to promote education flexibility (Ed-Flex) during the 102nd Congress and hope that the Congress will include these provisions in the Elementary and Secondary Education Act reauthorization bill in the 103rd Congress. Minor federal regulations often are barriers to systemic education reforms undertaken individually by states. **Republican Governors believe the Congress should provide legislative authority for states to appeal to the Secretary of Education for waivers of regulations that unnecessarily impede innovation and common-sense reforms.**

ENVIRONMENTAL LEGISLATION

The Clinton Administration and the Congress must be aware that we cannot preserve a healthy environment without a healthy economy. Both causes will best be served if the Administration and Congress commit themselves to an environmental policy based on results, not intentions. **Environmental legislation approved by the Congress is imposing an increasing budgetary burden on state and local governments.** For example, the annual costs of pollution control per household will increase by an average of 60 to 120 percent under current law without accounting for inflation.

Obviously, certain environmental standards are necessary, but it is imperative that standards are determined to be necessary before the costs are imposed on taxpayers, consumers, businesses, and local governments. Environmental programs and regulations should be judged by measurable results in improving environmental quality and preventing identifiable threats to the public health.

Because states need to be able to tailor programs to local concerns and conditions, federal initiatives should build on existing state programs, not preempt them. **States also need the flexibility and resources to enforce environmental laws absent compelling justification for federal involvement.**

The 103rd Congress is slated to consider reauthorization legislation for Superfund, the Clean Water Act, the Safe Drinking Water Act, and the Resource Conservation and Recovery Act. It is an ideal time for Republican Governors to work with our counterparts in Congress to stem the tide of over-regulation and unfunded environmental mandates. Republican Governors believe that legislative priorities should include:

* Reform of the Superfund law to provide actual clean-up of hazardous waste sites and a halt to endless and counterproductive litigation;
* Introduction of risk assessment principles in the Safe Drinking Water Act; and
* Greater flexibility for states to utilize Clean Water Act funding to tailor remediation efforts to local conditions and requirements.

The Republican Governors look forward to working closely with the Congress and the Clinton Administration in this vital area of public policy.

TRANSPORTATION AND INFRASTRUCTURE

One of the most important steps Congress can take to stimulate the economy is to appropriate full funding for the federal surface transportation program. Full funding will allow states to move ahead more rapidly with transportation projects that will create thousands of jobs. As several governors recently noted in a letter to the President-elect, "This is a vehicle for immediate action, without creating new programs or structures." It should be an urgent first step in the nation's economic growth strategy.

Although the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 authorized $151 billion over six years, 1993 appropriations fell $3.9 billion short of authorization levels. This will result in shortfalls of $2.5 billion for highway programs and $1.4 billion for mass transit.

States have the capacity to constructively utilize an additional $8.5 billion for highway and bridge projects by the end of fiscal year 1993. This funding would generate 382,500 to 510,000 jobs in 1993. Even a smaller infusion of additional spending would have a significant impact. For example, full funding of the 1993 authorized levels could produce as many as 240,000 new jobs. **Full funding is essential, not only for our nation's long-term economic development and the rehabilitation of aging transportation infrastructure, but also as a proven economic stimulus.**

Governors further urge the adoption of provisions that will produce quick, preventive action to repair and restore transportation infrastructure. These provisions should include expanded eligibility for simple preservation projects, greater flexibility among program categories, streamlined decision processes, and relaxed matching requirements.

NORTH AMERICAN FREE TRADE AGREEMENT

Republican Governors enthusiastically support timely implementation of the North American Free Trade Agreement (NAFTA). While recognizing the importance of programs to respond to short-term dislocations and environmental concerns, Republican Governors look forward to working with the Congress and the Clinton Administration to ensure implementation of this landmark agreement. NAFTA will increase U.S. exports to Mexico and Canada by eliminating tariffs on industrial and agricultural goods, stimulate investment, and open Mexico's services market. Industries and workers in sensitive sectors will be given time to adjust to full competition through tough rules of origin, by gradually phasing out tariffs, and through other safeguards. NAFTA will enhance environmental protection by safeguarding U.S. health, safety, and environmental standards.

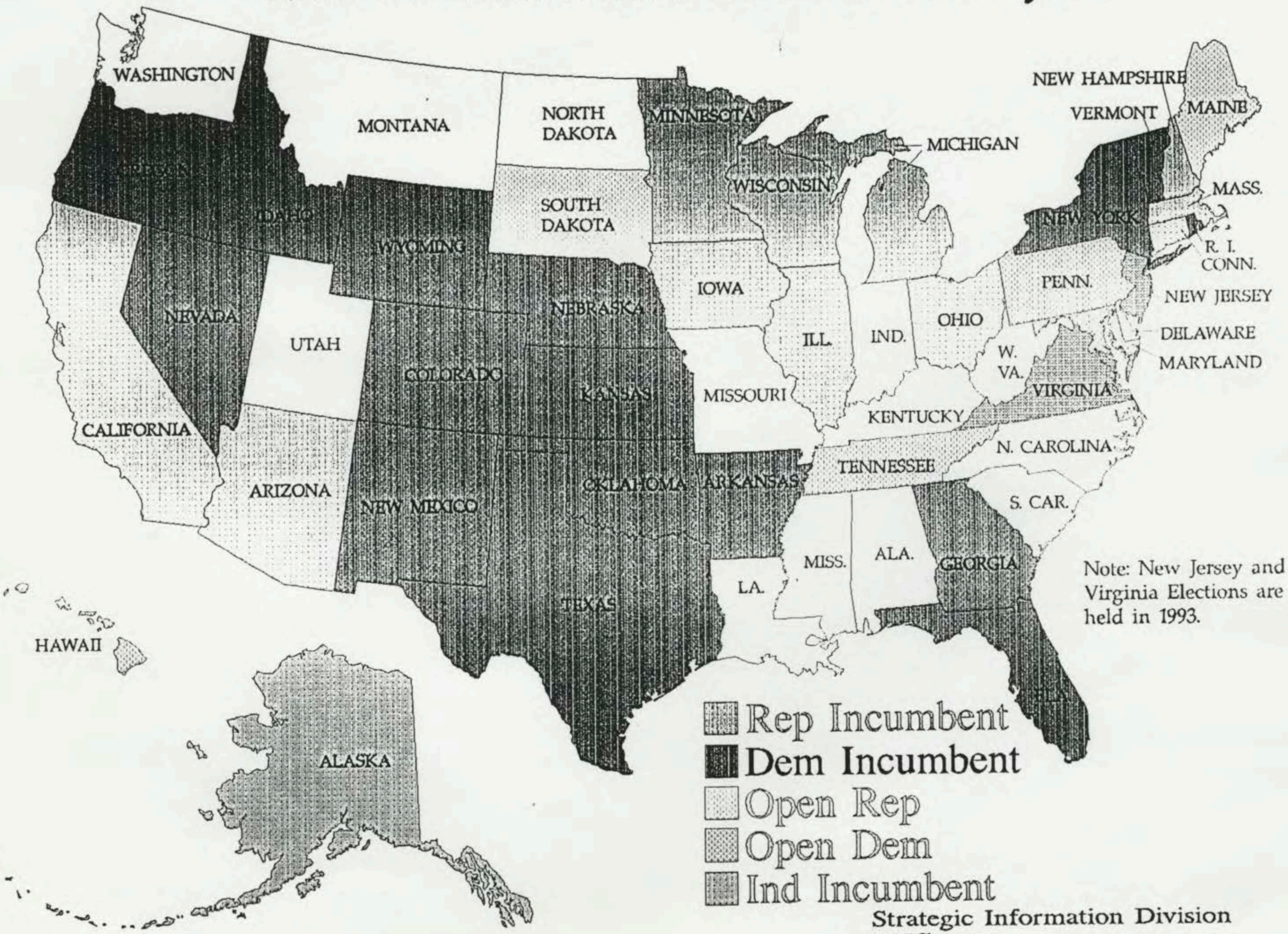
NAFTA is a forward looking trade agreement that will lock in benefits of trade with Mexico, improve economic growth and competitiveness, and create jobs. Exports stimulate more job growth than any other sector of the economy, accounting for 25 percent of the growth in American jobs between 1986 and 1990.

In entering into the NAFTA, the United States is undertaking numerous obligations that will require the cooperation of the States. Since NAFTA addresses matters of state policy and practice, state laws more likely will be cited in trade disputes. To facilitate implementation of the agreement, clarification of states' rights and responsibilities under the agreement is needed in several key areas.

Republican governors recognize the need to strengthen international rules on the development of product standards and technical regulations in order to minimize their use as barriers to trade. States should be able to set standards higher than federal or international minimums as long as those measures are non-discriminatory.

A comprehensive NAFTA will take time and resources to implement. The cost to states should be minimized, and cost estimates should be provided to determine the most efficient manner of implementing the agreement. Appropriate communications links and a process for obtaining state participation should be established in consultation with states in the areas of regulation of services, restrictions on investment, and government procurement practices.

1993-94 Gubernatorial Election Cycle



Note: New Jersey and Virginia Elections are held in 1993.

Strategic Information Division
RNC