HOW DOES THE POWER FLOW IN LEGISLATIVE BRANCH FEDERALISM?

CSG Civics Education eCademy Series

Tuesday, Aug. 4, 2 p.m. EDT | CSG eCademy Webcast
Fend-for-Yourself Federalism

Mayor Congeniality and the Urban Agenda

Florida’s New Tax: Is It Contagious?

Lessons from the Liability Crisis
GOVERNING
The Magazine of States and Localities

Paying for the Environmental Cleanup

February 1992

David Osborne and Ted Gaebler
On the Need for an American Perestroika

Reinventing Government
GOVERNING
THE MAGAZINE OF STATES AND LOCALITIES
JUNE 2007/04.50

WHY CAN'T THEY BEHAVE?
The Collapse of Civility
In Local Government
Governor
The Magazine of States and Localities

ORANGE CRUSH
Cities stagger under the burden of terror alerts
Fiscal Austerity and the Federal System

Paul L. Posner
George Mason University
Outline: Autonomy and Interdependence in American federalism

- Basic architecture: “fend-for-yourself-federalism”
  - Substantial State and local fiscal autonomy
  - Budget, tax and debt constraints mainly at the state and local levels
- Increased fiscal interdependence over time
  - More federal transfers and mandates
- Erosion of cooperative institutions
  - Paradox of more interdependence and less intergovernmental cooperation
THE RISE OF FISCAL INTERDEPENDENCE

- Growth of Federal Intergovernmental Aid
  - 953 separate federal grants in 2009
  - Totaled $607 billion in FY 2014
  - 23.2% of State/Local expenditures in 2013
  - 16.6% of total Federal expenditures in 2013
- Growth of “federally induced costs” for state and local governments: mandates and preemptions
State Revenues: Key and Increasing Role of Federal Grants


Note: The components of general revenue are own-source revenues (taxes, charges, miscellaneous revenues, etc.) and intergovernmental revenues (revenues received from federal and local government). These data represent aggregates for the sector. State revenue sources vary considerably by state. For example, seven states have no state income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Two others, New Hampshire and Tennessee, tax only dividend and interest income.
Vertical Equalization: The Obama Stimulus

Temporany Federal Aid to States

Source: Recovery Act data come from GAO Report to Congress, September 2010
FY 2011 totals include both ARRA & Education Jobs Funds
Number of Federal Preemption Statutes Enacted per Decade

*The 1990-1991 rate was multiplied by 5 to estimate how many preemptions might be enacted during 1990-1999.

Rise of Federal Mandates

Federal Mandate Growth, 1950-1990

Number of Mandates

Total Mandates

Mandates Conforming to ACIR Typology: Regulatory Federalism A-95.
Current U.S. federal fiscal system is unsustainable

- Major shifts in social and economic forces generating revenue and spending pressures
  - Globalization
  - Advancing technologies
  - Knowledge based economy
  - Aging of population
  - Rise in health care costs
Note: Projections based on intermediate assumptions of the 2002 Trustees’ reports.

LABOR FORCE GROWTH

Percent change (5-year moving average)

Note: Projections based on intermediate assumptions of the 2002 Trustees’ reports.

GAO Long Term Budget Outlook

Potential Fiscal Outcomes
Revenues and Composition of Spending in the Alternative Simulation

- Revenue

Percentage of GDP
- 0
- 10
- 20
- 30
- 40
- Fiscal year
- 2010
- 2020
- 2030
- 2040

- Not interest
- Social Security
- Medicare, Medicaid, CHIP, and exchange subsidies
- All other spending

Source: GAO.

Note: Data are from GAO’s Spring 2013 simulations based on the Trustees’ assumptions for Social Security and CMS Actuary’s assumptions for Medicare.
Future Federal Aid at Risk: Long term Budget Trends

<table>
<thead>
<tr>
<th></th>
<th>Social Security</th>
<th>Major Health Care Programs</th>
<th>Other Noninterest Spending</th>
<th>Net Interest</th>
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<td><strong>Average, 1973–2012</strong></td>
<td>4.2</td>
<td>2.7</td>
<td>11.2</td>
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<tr>
<td><strong>2013</strong></td>
<td>4.9</td>
<td>4.6</td>
<td>10.0</td>
<td>1.3</td>
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<tr>
<td><strong>2038</strong></td>
<td>6.2</td>
<td>8.0</td>
<td>7.1</td>
<td>4.9</td>
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</table>
Exhaustion of social security and medicare trust funds
Future Federal Aid at Risk: Federal Budget “Sequester”
State and Local Fiscal Gap

Figure 2: State and Local Government Action Required to Maintain Balance (Expenditures, as a Percentage of Gross Domestic Product—GDP)

Note: Historical data are from the Bureau of Economic Analysis’s (BEA) National Income and Product Accounts (NIPA). Data in 2012 are our estimates aligned with published data where available. Our simulations are from 2013 to 2060, using many CBO projections and assumptions, particularly for the next 10 years.
Composition of State and Local Spending

Figure 3: Health and Nonhealth Expenditures of State and Local Governments, as a Percentage of Gross Domestic Product (GDP)

Percentage of GDP

Year

2015 2010 2015 2020 2025 2030 2035 2040 2045 2050 2055 2060

Nonhealth care expenditures
Health care expenditures

Source: CBO simulations, updated April 2013

Note: Historical data are from the Bureau of Economic Analysis’s (BEA) National Income and Product Accounts (NIPA). Data in 2011 are our estimates aligned with published data where available. Our simulations are from 2013 to 2060, using many CBO projections and assumptions, particularly for the next 10 years.
State sales tax bases have been eroding

US Sales tax base as percent of personal income, 1979-2009

Source: Fox, William, University of Tennessee at Knoxville
State and Local Funded Ratios with Liabilities Discounted by Riskless Rate

Note: Authors’ estimates.
Sources: Various 2013 actuarial valuations; and PPD (2001-2013).

Centralizing Effects of Deficit Commission Proposals

- Reduced discretionary budgets will prompt cuts in federal grants
- Tax expenditures reexamined
  - State and local deduction
  - Tax exempt bonds
- Cost shifts and mandates
  - Extend social security coverage
- Revenue nationalization - VAT
- Cap and consolidate
  - Medicaid long term care
  - Homeland security grants
<table>
<thead>
<tr>
<th>Better way to address state budget problems...</th>
<th>Total</th>
<th>Rep</th>
<th>Dem</th>
<th>Ind</th>
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<tr>
<td>Federal gov't should give more money to states, even if it increases deficit</td>
<td>26</td>
<td>17</td>
<td>36</td>
<td>26</td>
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<tr>
<td>States should take care of this, by raising taxes or cutting services</td>
<td>58</td>
<td>73</td>
<td>48</td>
<td>60</td>
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<tr>
<td>Don't know</td>
<td>16</td>
<td>10</td>
<td>16</td>
<td>15</td>
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</tbody>
</table>

Figures may not add to 100% because of rounding.
Federalism in an Age of Austerity

- **Go it alone federalism**
  - Partial and ineffective solutions
  - Public confusion

- **Cost shifting**
  - Unfunded mandates
  - Fiscal substitution

- **Fiscal coordination**
  - Win-win strategies
  - VAT
  - Sorting out responsibilities
The Case for Fiscal Collaboration

- Health care costs and coverage
- Economic growth in an aging society
- National infrastructure investments
- Revenue productivity
A Federalism reform agenda?

- **Tax policy**
  - Tax expenditure reform
  - Consumption taxation
  - Tax base sharing

- **Grants**
  - Sorting out
  - Consolidation/performance grants
  - Targeting

- **Regulatory**
  - Unfunded mandates act
  - Performance outcomes
  - Variable speed federalism

- **Institutions**
  - National/federal for engagement
  - Fiscal impacts
  - State capacity for engagement
Future Prospects for Reform: Intergovernmental Institutions:

- **1980**
  - ACIR
  - OMB
  - GAO
  - Congressional IGR subcommittees
  - Academy for State and Local Government

- **2013**
  - CBO cost estimation
  - GAO
Federalism in Uncertain Economic Times

G. William Hoagland
Sr. Vice President
Bipartisan Policy Center

August 4, 2015
### Economic Environment: Economic Forecasts
Calendar Years 2014 - 2016

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>2014</th>
<th>Forecast 2015</th>
<th>Forecast 2016</th>
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<td><strong>Real GDP Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CBO</td>
<td>+2.2%</td>
<td>+2.8%</td>
<td>+3.0%</td>
</tr>
<tr>
<td>Blue Chip</td>
<td>+2.4%</td>
<td>+2.4%</td>
<td>+2.8%</td>
</tr>
<tr>
<td>Administration</td>
<td>+2.2%</td>
<td>+3.1%</td>
<td>+3.0%</td>
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<tr>
<td><strong>Inflation (CPI)</strong></td>
<td>+1.6%</td>
<td>+2.0%</td>
<td>+2.1%</td>
</tr>
<tr>
<td>CBO</td>
<td>+1.6%</td>
<td>+0.3%</td>
<td>+2.1%</td>
</tr>
<tr>
<td>Blue Chip</td>
<td>+2.0%</td>
<td>+1.4%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>Administration</td>
<td>+1.4%</td>
<td>+1.4%</td>
<td>+1.9%</td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td>6.2%*</td>
<td>5.5%</td>
<td>5.4%</td>
</tr>
<tr>
<td>CBO</td>
<td>6.2%*</td>
<td>5.5%</td>
<td>5.4%</td>
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<tr>
<td>Blue Chip</td>
<td>5.5%</td>
<td>5.3%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Administration</td>
<td>5.4%</td>
<td>5.4%</td>
<td>5.1%</td>
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<tr>
<td><strong>10 Year Note</strong></td>
<td>2.5%*</td>
<td>2.8%</td>
<td>3.3%</td>
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<tr>
<td>CBO</td>
<td>2.5%*</td>
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<td>3.3%</td>
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<tr>
<td>Blue Chip</td>
<td>2.3%</td>
<td>3.0%</td>
<td>3.3%</td>
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<tr>
<td>Administration</td>
<td>2.8%</td>
<td>3.0%</td>
<td>3.3%</td>
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</table>

Sources: Congressional Budget Office, January 2015; Blue Chip Economics Forecasts, July 10, 2015; President’s FY 2016 Budget, February 2015.

* = Actual
Total Budget Surplus/Deficit
FY 1971-2025

## Budget Outlook

**FY 2012 – 2025**

(In Billions of Dollars – % of GDP)

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Receipts</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Actual</td>
<td>2,450</td>
<td>2,774</td>
<td>3,021</td>
<td>3,191</td>
<td>3,470</td>
<td>3,601</td>
<td>3,728</td>
<td>5,030</td>
<td>+ 4.7%</td>
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<tr>
<td><strong>Spending</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual</td>
<td>3,537</td>
<td>3,455</td>
<td>3,506</td>
<td>3,677</td>
<td>3,925</td>
<td>4,056</td>
<td>4,217</td>
<td>6,069</td>
<td>+ 5.3%</td>
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<tr>
<td><strong>Deficits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of GDP</td>
<td>1,087</td>
<td>680</td>
<td>485</td>
<td>486</td>
<td>455</td>
<td>455</td>
<td>489</td>
<td>1,038</td>
<td>+8.8% NA</td>
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<td><strong>Public Debt</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>% GDP</td>
<td>11,281</td>
<td>11,983</td>
<td>12,780</td>
<td>13,366</td>
<td>13,897</td>
<td>14,428</td>
<td>14,983</td>
<td>21,182</td>
<td>+4.4%</td>
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<tr>
<td>Debt Subject Limit</td>
<td>16,027</td>
<td>16,699</td>
<td>17,781</td>
<td>18,473</td>
<td>19,144</td>
<td>19,794</td>
<td>20,502</td>
<td>26,926</td>
<td>+4.0%</td>
</tr>
</tbody>
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CBO estimate of nominal GDP growth increase 4.3% annually 2015-2025.

The Accumulation of Public Debt
Debt Held by the Public -- Exceeds 100% of Economy 2038

Source: Congressional Budget Office.
Federal Spending Projected for 2025

Medicare (16%)

Medicaid (10%)

Social Security (26%)

Defense (12%)

Net Interest (14%)

Other Health Programs (2%)

Other Mandatory Spending (10%)
Domestic Discretionary (11%)
Agriculture (0.3%)

“Other Health Programs” includes: Health insurance subsidies, exchanges, and related spending; Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); Children’s Health Insurance Program, and other programs.

Growth in Net Interest
Average Annual Growth, 5-year periods (1965 – 2020)

% Growth

Nominal Growth
Real Growth in 2005 $

Source: “The Budget and Economic Outlook Fiscal Years 2013 to 2023: Congressional Budget Office, February 2013” plus historical data.
Projected Growth in Major Budget Categories

2012-2025 (% GDP)

Projected Outlays in Major Budget Categories

Percentage of Gross Domestic Product

- Major Health Care Programs
- Social Security
- Nondefense Discretionary
- Defense Discretionary
- Net Interest
- Other Mandatory

Source: Congressional Budget Office.

Note: Major health care programs consist of Medicare, Medicaid, the Children’s Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending. (Medicare spending is net of offsetting receipts.) Other mandatory spending is all mandatory spending other than that for major health care programs and Social Security.
Social Security and Disability Trust Funds’ Exhaustion

Social Security Trust Fund Ratios
Assets as Percent of Annual Cost
Trustees Report Intermediate Projections

OASDI 2014TR
OASI 2014TR
DI 2014TR
OASDI 2013TR
OASI 2013TR
DI 2013TR

Historical

Tax Rate
Reallocation

0%
50%
100%
150%
200%
250%
300%
350%
400%
450%

## Limits on Discretionary Budget Authority
### FY 2015 to 2021
(Billions of dollars)

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<tr>
<td>Defense</td>
<td>Cap</td>
<td>POTUS</td>
<td>521</td>
<td>521</td>
<td>523</td>
<td>536</td>
<td>549</td>
<td>562</td>
</tr>
<tr>
<td></td>
<td>S.Con.Res.11</td>
<td>POTUS</td>
<td>521</td>
<td>523</td>
<td>536</td>
<td>573</td>
<td>584</td>
<td>592</td>
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<td></td>
<td>523</td>
<td>561</td>
<td>536</td>
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<td>592</td>
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<td>523</td>
<td>561</td>
<td>536</td>
<td>549</td>
<td>584</td>
<td>592</td>
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<tr>
<td>Global War on Terrorism -- OCO</td>
<td>64</td>
<td>94</td>
<td>65</td>
<td>63</td>
<td>58</td>
<td>50</td>
<td>48</td>
<td>-4.6%</td>
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<td></td>
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<td>POTUS</td>
<td>64</td>
<td>58</td>
<td>65</td>
<td>27</td>
<td>58</td>
<td>27</td>
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<td>Total Defense</td>
<td>S.Con.Res.11</td>
<td>POTUS</td>
<td>585</td>
<td>617</td>
<td>601</td>
<td>612</td>
<td>620</td>
<td>626</td>
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<td>Nondefense</td>
<td>Cap</td>
<td>POTUS</td>
<td>534</td>
<td>493</td>
<td>504</td>
<td>516</td>
<td>530</td>
<td>543</td>
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<td>POTUS</td>
<td>534</td>
<td>493</td>
<td>504</td>
<td>516</td>
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<td></td>
<td>POTUS</td>
<td></td>
<td>534</td>
<td>530</td>
<td>504</td>
<td>516</td>
<td>530</td>
<td>543</td>
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<td></td>
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<td>530</td>
<td>504</td>
<td>516</td>
<td>530</td>
<td>543</td>
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<tr>
<td>Total w/OCO</td>
<td>Cap</td>
<td>S.Con.Res.11</td>
<td>1,119</td>
<td>1,016</td>
<td>1,040</td>
<td>1,065</td>
<td>1,092</td>
<td>1,119</td>
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<td>1,119</td>
<td>1,016</td>
<td>1,040</td>
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<td>1,065</td>
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WWW.BIPARTISANPOLICY.ORG
<table>
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<tr>
<th></th>
<th>FY 2016 S.Con.Res. 11</th>
<th>President’s Budget</th>
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<tr>
<td>Unified Deficit Estimate</td>
<td>$6,721*</td>
<td>$6,781**</td>
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<tr>
<td>Policy Changes:</td>
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<tr>
<td>Discretionary</td>
<td>- 326</td>
<td>-38a</td>
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<tr>
<td>Mandatory</td>
<td>-4,190</td>
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<tr>
<td>Interest</td>
<td>- 773</td>
<td>- 153</td>
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<td>Revenues</td>
<td>0</td>
<td>+1,780</td>
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<td>Total Policy Changes</td>
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<td>-1,202</td>
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<td>Resulting Unified Deficit</td>
<td>$1,432</td>
<td>$5,579</td>
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<td>Debt Held by Public to GDP 2025</td>
<td>55.6%</td>
<td>73.1%</td>
</tr>
<tr>
<td>Economic Growth Benefit</td>
<td>$124</td>
<td>NA</td>
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</tbody>
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Sources: * S.Con.Res. 11. Concurrent Resolution on the Budget for FY 2016, April 30; ** CBO Analysis of President’s 2016 Budget. March 2015 baseline adjusted to be closely consistent with S.Con.Res assumptions.

a. Adjusted for not reclassifying surface transportation spending as mandatory. Consistent with congressional scoring. ***=CBO March Baseline with extrapolation of OCO, Program Integrity and Emergency Spending in baseline.
Impending “Fiscal Speed Bumps” 2015-2016

Source: The Committee for a Responsible Federal Budget
# 114th Congress & Races 2014, 2016, 2018

<table>
<thead>
<tr>
<th></th>
<th>Party Affiliation</th>
<th>113th Congress</th>
<th>Seats that were up in 2014</th>
<th>114th Congress</th>
<th>Seats Up in 2016</th>
<th>Seats Up in 2018</th>
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<tr>
<td><strong>U.S. Senate</strong></td>
<td>Democrats</td>
<td>54</td>
<td>21</td>
<td>46</td>
<td>10</td>
<td>24</td>
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<tr>
<td></td>
<td>Republicans</td>
<td>45</td>
<td>15</td>
<td>54</td>
<td></td>
<td>24</td>
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<tr>
<td><strong>U.S. House</strong></td>
<td>Democrats</td>
<td>201</td>
<td>201</td>
<td>188</td>
<td>188</td>
<td>NA</td>
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<tr>
<td></td>
<td>Republicans</td>
<td>234</td>
<td>234</td>
<td>246 (1 Vacant)</td>
<td>246</td>
<td>NA</td>
</tr>
</tbody>
</table>
Alice Rivlin
Senior fellow, Brookings Institution
Former director, White House Office of Management and Budget
Questions?

Please submit them in the question box of the GoToWebinar taskbar.