

Dateline Raleigh

Coping with a Fiscal Revolution

by Ferrel Guillory

One man in particular is responsible for the reconvening of the North Carolina General Assembly this fall — the President of the United States. Legislators will meet to adapt state government to Ronald Reagan's fiscal "revolution." Had Jimmy Carter been re-elected president in 1980, it is unlikely that state lawmakers would find themselves holding such a second session this year — an extraordinary exercise in adapting the state lawmaking process to changes in the federal government.

Not until October 1, the start of the federal fiscal year, will the American people and their state and local officials begin to feel the actual effects of the Reagan budget as approved by Congress. The fall session of the N.C. Legislature — to begin in October — serves as one of the first tests of how a state will react to the \$35 billion in domestic spending cuts and to a new system of "block" grants that allow state and local governments to set priorities for themselves.

Under a block grant, federal aid is sent to a state not for a specific program but in a lump sum to be spent as state officials decide. The Reagan program, as approved by Congress, provides block grants for preventive health services; maternal and child health; primary care; alcohol abuse, drug abuse and mental health; education; community services; community development; energy assistance; and social services. Within these broad categories, North Carolina officials can use the federal money however they choose. State officials can keep existing programs, reduce them, or start up programs of their own. Once a program is put into a block grant, previous federal rules imposed on a state do not apply. Thus, through the fiscal process of block grants Reagan is moving toward re-writing much federal domestic policy.

Anticipation of Reagan-inspired cuts in federal aid to state government cast a shadow over the regular 1981 legislative session. The legislature

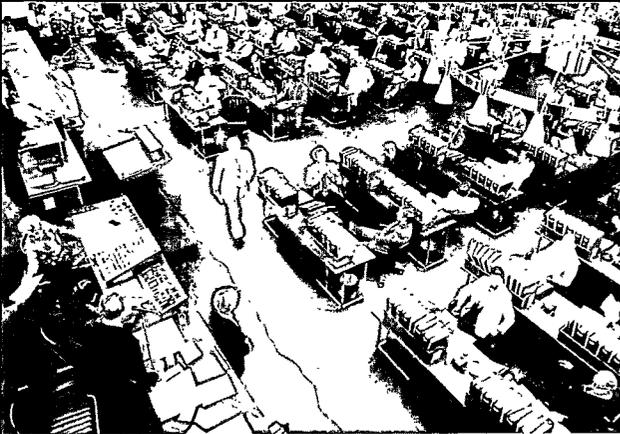
reduced the state budget by about \$20 million in each year of the 1981-83 biennium and deferred or eliminated expansion budget items totaling \$141 million in 1981-82 and \$184 million in 1982-83. Moreover, the legislature decided to convene again in the fall to readjust the biennial budget bill after the extent of the Reagan cuts had become clear.

Federal funds constitute about one-fourth of North Carolina's \$11.7 billion biennial budget. On the basis of Reagan's original proposals, officials estimated the state's loss of federal revenue to be about \$300 million. Because of changes made by Congress to Reagan's proposals, however, it now appears that North Carolina will lose \$150-200 million. Moreover, Congress did not fold as many individual programs into block grants as Reagan had sought.

Still, state officials do not believe that there is enough state revenue available to pick up all of the federal cuts. With the legislature having just raised the gasoline tax in the spring and with additional measures still pending in the fall to bolster the Highway Fund, the prospect of legislators raising more taxes to offset federal cutbacks is virtually nil.

Governor Hunt has accepted the National Governors' Association calculation that state governments could absorb a 10 percent reduction in federal aid if given increased administrative flexibility. But the cuts have gone well beyond 10 percent and for those programs grouped into block grants approach 25 percent. In a speech to a gathering of human resources agency officials from around the country, Hunt expressed the dilemma

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The North Carolina House of Representatives.

of a governor who supports heightened state responsibility — a rejuvenated federalism — but who faces substantial cuts in federal funds.

“As I see it, what we’ve worked for so long [federalism] could turn out to be a real disaster,” said Hunt. “As great as the opportunity is, the disaster could be equally great, not because it’s a bad concept, but because the cuts are so deep and because we have so little time to adjust to them . . . Make no mistake about it, cuts of that magnitude mean that not some, but many of the people who are receiving help this year will not receive help next year. There is going to be real pain and real suffering.”

When the hurt begins, who is to get the blame? To date, Reagan has gained politically for his instigation of deep budget-cutting in social programs. Revising the state budget to take these cuts into account, the Governor, legislators, and other state officials will be put in the position of bearing bad news to recipients of curtailed government services. “It sounds big, these block grants,” said House Speaker Liston B. Ramsey. “But the bottom line is that we’ll have 25 percent less money and be expected to do with 75 cents what we used to do with one dollar. We can’t do it that way. Those that get hurt — I hope they don’t blame the state government.”

Legislators, bureaucrats, and advocates of specific programs have a natural bias toward preserving existing programs even at reduced levels of financing. After all, the thinking goes, it is preferable to keep a program and wait for better times than to kill it completely and try to resurrect it later. As described by state officials, one of the basic choices awaiting legislators in the fall session is whether to cut programs proportionately or whether to scrap a particular program in order to save or start another one.

Much of the lobbying and political competition for budget funds that used to take place in Washington will now be shifted to state capitals. In Raleigh, legislators and the Governor will come

into the fall session with their own agendas. For example, Ramsey said he wanted the state to pick up about \$42 million that was cut out of the school lunch program. At the same time, state employees are seeking a pay raise, which would cost about \$106 million; the General Assembly and the Governor have declared these salary increases to be a top priority.

In preparation for the fall session, Governor Hunt plans to put together his own package of recommendations of how to respond to the federal budget-cutting. He has authorized an *ad hoc* interagency task force to examine block grants and to develop policies for state action. The administration’s budget priorities, in addition to a pay raise for state employees, will probably emphasize education programs such as day care and reducing the size of public school classes. Betty Owen, the gubernatorial assistant for education, is the task force coordinator. Other participants include gubernatorial aides Paul Essex and Robert Jansen and representatives of the state budget office, the Department of Human Resources, the Department of Public Instruction, and the Department of Natural Resources and Community Development.

Meanwhile, in the Department of Human Resources, officials have held meetings with medical care providers to discuss Medicaid, a federal program which could be severely affected by budget cuts. Of the \$503 million spent for Medicaid in North Carolina in 1980, the federal share was about \$333 million, but that share will be cut about three percent in 1981-82 and four percent in 1982-83. Human Resources officials are trying to determine if dentists, pharmacists, physicians, hospital representatives, and other providers could find ways to cut down on reimbursements — for example, by doing some medical procedures on an out-patient basis rather than requiring hospitalization. If federal cuts cannot be absorbed by such techniques, the legislature may be faced with deciding whether to raise the state share of the Medicaid budget, to accept reduced services under this program, or to limit the number of beneficiaries. The issue of Medicaid, which provides health care to the poor, may well be one of the toughest problems confronting state government in connection with federal budget-cutting.

The legislature’s impending encounter with budget cuts and block grants may not be its last. President Reagan has promised to try to expand the block grant approach to federal-state relationships and his tax cuts combined with higher defense spending foretell deeper domestic program reductions. Unless the Reagan “revolution” is quashed, the North Carolina General Assembly may find its agenda dominated for several years by that particular man in Washington. □