

# North Carolina Copes with Cuts

by Bill Finger

*The following article appeared on the "op-ed" page of The New York Times, February 1, 1982. Following its publication, calls from Boston to Florida came into the N.C. Center for Public Policy Research requesting more information. One caller, Eve Kryzanowski of NBC Nightly News, scheduled a special report on budget cuts in North Carolina as a result of this article. The news story aired on the Saturday, March 6, 1982, edition of NBC Nightly News.*

*As a part of the Center's ongoing efforts to monitor budget cuts in North Carolina, this spring the Center sponsored a series of seven seminars for the media across the state where it released "Federal Budget Cuts in North Carolina - Part II." Copies of this 332-page report are available from the Center for \$10.00. The Center also focused a recent issue of its quarterly magazine, N.C. Insight (Vol. 4, No. 4), on federal budget cuts. Free copies of the magazine are available.*

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RALEIGH, N.C. — North Carolina officials, like those in other states, have gained the unenviable power of deciding which services to deliver and which to cut. And choose they must. New federal budget reductions, begun in the current, 1982 fiscal year, will increase in fiscal 1983.

To cope with the first wave of federal budget cuts, state officials are not appropriating additional state funds but, instead, are reducing services.

This is happening in the 10th most populous state, where 3 of every 20 persons in the population of 5.9 million live at the poverty level.

The North Carolina General Assembly, in a special session in October 1981 held to adjust the

state budget to the federal cuts, relied on this rule of thumb: Reduce the funding levels for state- and federally-supported programs at the same rate that Congress and the Reagan Administration have reduced federal support. And when constituents start complaining, make sure that the Republicans in Washington, not the Democrats in Raleigh, get the blame for the damage.

This refusal to use state funds to absorb federal cuts is resulting in significant losses to the poor, especially in the Medicaid program.

Effective last October 1, the beginning of the federal government's 1982 fiscal year, Washington's share of North Carolina's Medicaid budget was reduced by three percent. Even after the federal cut, however, about two federal dollars come to North Carolina for every state dollar allocated for Medicaid. Hence, an additional state appropriation in October of \$8.7 million would have avoided the loss of some \$25 million in Medicaid services for the state's 1982 fiscal year. The legislature, faced with a possible choice of voting new funds or losing \$25 million, considered only one course of action: Reduce Medicaid services enough to cover the federal cuts.

"I was asked to present all the possible options to cut costs," said Barbara Matula, director of the North Carolina Division of Medical Assistance and a nationally recognized Medicaid expert. "At no point did they say to me, 'How much money do we need to bail out the feds?'"

The state has generally adopted the same strategy toward the new block grants that it did toward Medicaid.

As in other states, there is a growing struggle between the legislative and executive branches over the administration of block-grant funds. As it happens, in North Carolina the political maneuverings have attracted more attention than have the reductions in services.



Pharmacist fills a prescription. In 1981, the N.C. General Assembly reduced this Medicaid service because of the federal budget cuts.

Photo by Paul Cooper

In October, the legislature included a provision in the budget bill creating a block-grant supervisory committee with the power "to review all aspects of the acceptance and use of Federal block grant funds."

James B. Hunt Jr., the well-entrenched, second-term governor and a leading actor in the national Democratic Party, strongly objected to the measure, citing a passage from the state constitution: "The budget as enacted by the General Assembly shall be administered by the Governor." At its first meeting, December 3, the block-grant supervisory committee questioned several unilateral cuts made by Hunt officials. The legislative leaders and the State Budget Officer, the Governor's top fiscal official — all of them close colleagues in the state Democratic Party — sparred in a polite, if not chummy, fashion. Because of a common enemy, they contained their tensions. Both sides concurred, as the Budget Officer put it: "The problem is not between this committee and state government. The problem is in Washington, D.C."

But Raleigh faces severe problems, too. If the state legislature adopts the same approach toward

the fiscal 1983 federal Medicaid cut, for example, North Carolinians will lose some \$50 million in services. And if the proposals made in President Reagan's State of the Union Message survive Congressional review, the states will have even greater responsibilities to bear.

The lessons from North Carolina's experience seem clear. State officials have been trained to administer federal branch offices even while surviving the vagaries of local politics. In their initial, instinctive responses to the federal budget cuts, they are reducing services at rates determined in Washington while concentrating on gaining control of new administrative powers at home.

The fundamental transformation of government that is under way is becoming less of a mystery and more of a reality. The poor, the middle class, county commissioners, and municipal officials have begun to feel the funding pinch. State leaders must begin making very difficult policy choices, for the branch offices have gotten a promotion, of sorts: They have to continue delivering most of the nation's domestic services even as they receive fewer dollars with which to do the work. □