

# **Governance in the New Economy**

## **SUMMARY**

Sometime in the not too distant future, Governors will make decisions about where in their state to target federal resources for economic development based on communities' ability to design and implement a plan that will achieve measurable results. At the end of the fiscal year, the state will provide the federal government with data that determine whether the economic development programs have succeeded in revitalizing the targeted communities. Citizens will participate in determining success or failure. The data will have to justify the expenditure of multi-agency funds from a flexible, federal account with predetermined measures of success. If communities have surpassed their economic development goals, the state will receive a federal funding bonus that can be spent on additional economic development efforts.

Take this scenario one step further and envision the communities as "customers." State and local leaders will be able to comprehensively and strategically plan for revitalized local economies, as a result of a single grant from the state's "economic development" account that the federal government funds. The grant will provide funds to retool outdated manufacturing facilities to accommodate new, high-technology businesses as well as to train workers to prepare for new high-technology jobs. The support services that workers need, such as transportation to training sites and child care, will be provided in this same grant as part of a new, holistic approach to government services and programs. In addition, the marketing strategies to attract private-sector investment in these communities will be funded from the same grant, bringing the economic development cycle full circle. Each year, communities must show measurable progress, according to predetermined criteria established by the federal-state economic development partnership.

*To some, this may sound like a governance model for the future. Yet the future is now. As the world hurtles forward in this global and digital age, the need to make fundamental changes in the way government does business takes on added urgency.*

The National Governors' Association's *Governance in the New Economy* examines the forces shaping the U.S. economy and influencing American governance. It identifies guiding principles and new models to restructure the partnership between the states and the federal government to better serve citizens and businesses in the twenty-first century. It looks at governmental strategies and governance issues that

leaders at both levels must address to enable the United States to compete in the new economy. It also explores innovative, customer-friendly ways to deliver and administer government programs and services.

*Governance in the New Economy* raises issues, poses questions, and discusses options to begin a debate on a blueprint for a new, more vibrant federalism. To jump-start the discussions, it looks at four critical areas of federal-state governance—discretionary grants, entitlement programs, revenue systems, and regulation.

### **Competing Forces Bring Challenges and Opportunities**

Globalization, technology, and deregulation are competing forces that are reshaping the economic environment and prompting changes in the way the nation governs. Most levels of government have begun to take small steps to accommodate these forces in their approach to governing. For example, the Internet is fast-becoming an accessible and valuable source of information about government programs and services, and, in some cases, government services are available online.

Yet the government that “customers” of the twenty-first century want and expect is more accountable and responsive to their needs. This will require further devolution of federal programs and measures to assess performance.

In contrast, the international marketplace requires more uniformity. Businesses can no longer accommodate the existing, patchwork quilt of state laws, regulations, and tax programs. Consequently, the federal government must have a greater role in setting uniform standards in many areas. However, in doing so, the federal government need not impose limits on states’ sovereign powers. Careful thought must be given to which decisions could be moved to the federal government and which could be shifted to state and local governments.

To assist the United States in maintaining its world economic leadership and citizen support, governments at all levels must adopt new strategies, such as the following.

- Reengineer government to become more flexible, adaptable, customer-oriented, and performance-driven. This includes focusing on results, decentralizing decisionmaking, and using technology to improve service delivery.
- Make strategic investments to build the intellectual and physical infrastructure needed in the new economy. This includes providing lifelong learning opportunities and enhancing

transportation and telecommunication systems to support commerce and improve the quality of life.

- Reshape the economic environment to facilitate business expansion and eliminate market distortions caused by outmoded taxes and regulations. This includes revising tax systems, simplifying regulations, refocusing research and development on economic outcomes and commercialization, and increasing access to venture and seed capital.

Responding to the forces of change and implementing these strategies requires a dynamic federal-state partnership and new models of governance.

### **A New Federalism Is Required**

The current governance system that contributes to ad hoc, narrow-sighted decisions must be replaced with a new, broad vision of federalism. In developing a blueprint for this new federalism, guiding principles could include the following.

First, to develop more performance-oriented and accountable government, the roles and responsibilities of the respective levels of government need to be clarified. For example, should the federal government be responsible for all programs dealing with the elderly and disabled? Should states be responsible for programs focused on working Americans and their children. The current overlap in responsibilities could be reduced over time to increase performance and accountability.

Second, it is important to decide which level of government should create regulations and which level should enforce them. The higher the cost to industry of fifty different state regulatory systems and the more the issue is interstate, the more the responsibility begins to tip toward federal standard-setting. The lower the cost and the greater the need for experimentation, the more the scale tips toward state responsibility. State enforcement of federal standards would often be appropriate in order to develop the most flexible and cost-effective regulatory systems that protect consumers.

Third, additional federal programs for the nonelderly should be devolved to states to increase customer responsiveness, performance, and accountability. This trend was established several years ago for welfare, children's health, and other programs. More experimentation with multiagency and multijurisdictional programs is needed.

Fourth, it is critical to coordinate and rationalize federal, state, and local tax systems. Such a restructuring will enable citizens and businesses to understand which level of government is taxing and which is providing services. It also is important to craft a simplified tax structure that is fair and equitable.

The tasks of developing guiding principles and a blueprint for a new federalism will require mutual effort and commitment. Although it is critical that debate begins, governance models must remain flexible to accommodate further change in a century marked by change.

### **Major Areas of Federal-State Governance Need Rethinking and Reshaping**

The existing federal-state governance system is antiquated, and it will fail during the next decade absent fundamental changes. The difficulty of reconciling historic and emerging tensions between the two levels of government should not divert policymakers from the task of restoring accountability and jointly shouldering the responsibility to shape the future and frame the questions that must be answered. The United States must steer a new course of governance for the new economy. In particular, four major areas of federal-state governance require considerable focus and attention—discretionary grants, entitlement programs, revenue systems, and regulation. In each area, questions must be posed to provide a foundation for important discussions that need to begin today. Leaders who meet the challenge of answering these questions will be laying the groundwork for a dramatic culture change throughout government at all levels with regard to how this nation serves its citizens and businesses.

#### *Discretionary Grants*

Flexibility, accountability, and responsiveness to consumer needs are cornerstones of a new system for administering discretionary grants. Without flexibility, states cannot transform the grants into responsive, customer-driven programs. In exchange for flexibility, the federal government could ask states to ensure accountability by meeting certain performance measures. Specific strategies include consolidating similar categorical grants and using performance measures to ensure accountability and combining disparate programs into a single grant and using performance measures to ensure accountability. A more experimental model could aggregate federal dollars from various grant programs and give the funds to a consortium of state and local governments to meet the needs of a particular region. Accountability would be ensured through performance measures.

#### *Entitlements*

Historically, providing for the health and welfare of the nation's citizens has been a shared responsibility of the federal and state governments. In the past, the division of responsibility has been fairly

straightforward. The federal government has been responsible for assisting the elderly and the disabled. States have administered programs for children and low-income families. Although this is an oversimplification, states have been responsible for populations that will soon be in, are in, or may return to the workforce, while the federal government has been responsible for populations that have left the workforce.

These new “unofficial criteria” for determining eligibility have evolved as a result of legislative reform. However, to design a more coordinated, “citizen-as-customer” approach to providing the safety net, policymakers will need to ask questions such as the following.

- Are these distinctions between federal and state responsibilities still meaningful?
- Should the responsibility for different populations be divided between the states and the federal government?
- How can programs with common goals be coordinated to improve service delivery?
- How can programs be designed to ensure flexibility and accountability?
- If policy reforms are made, how must financing change?
- What are the implementation concerns?

### *Revenue Systems*

A public finance system for the twenty-first century must overcome the systemic and institutional shortcomings that handicap the current system. This will clearly require greater interstate and federal-state cooperation. Rethinking the nation’s tax and revenue systems will also require finding ways to avoid tax competition among the different levels of government. New models should strive to meet several objectives, including simplicity, equity, accountability, neutrality and transparency, and sovereignty.

### *Regulation*

Regulatory models for the new economy should be cost-effective and customer-friendly for regulated entities and individuals, afford flexibility in how standards are met, and provide protection to consumers. Such models also need to respond to calls for uniform standards in an international marketplace. Where fifty different state rules and regulations are burdensome to the private sector and the issue is primarily interstate, then federal standards might be appropriate. Where the activity occurs primarily within state borders and there is a need to experiment with regulation, a state regulatory approach might be appropriate. Another model could use minimum federal standards while retaining states’ abilities to impose higher standards

### **America's Leaders Must Respond**

Most successful, information-age corporations recognize that their ability to create products and deliver services with smaller, flexible, and autonomous units of operation is critical to their ability to compete in the new economy. The same principle holds true for governments. Smaller, more flexible, and more autonomous governance structures will be far more effective in overcoming the inertia characteristic of bureaucracy and much better able to respond to the fundamental changes occurring in the U.S. economy and society.

The twenty-first century will bring together profound forces that will reshape how the federal, state, and local governments work together to serve America's citizens and businesses. Globalization, technology, and deregulation will forever alter the way this nation governs and will reconstitute the federal system.

The nation's leaders have an unprecedented opportunity to respond to these economic changes and forge a dynamic federalism that incorporates the extraordinary strengths and diversity of the United States. The writings of Woodrow Wilson are as relevant today as they were nearly a century ago: "The question of the relation of the States to the federal government is the cardinal question of our constitutional system. At every turn of our national development we have been brought face to face with it."

*How Governors, together with the President and Congress, embrace these changes and rise to the challenges and opportunities they present will determine the course of governance in the new economy and the continued prosperity of America in the twenty-first century.*