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**Understanding Recent Trends in  
Central-Local Relations:  
Centralisation in Great Britain and  
Decentralisation in the United States**

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UNDERSTANDING RECENT TRENDS IN CENTRAL-LOCAL RELATIONS:  
CENTRALISATION IN GREAT BRITAIN AND DECENTRALISATION IN THE UNITED STATES

by

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Margaret Thatcher and Ronald Reagan are frequently cited as ideological soul-mates who have set their respective countries on similar courses in pursuit of conservative objectives. Therefore it is particularly striking that, despite this shared ideology, they have pursued dramatically opposing policies with respect to intergovernmental relations<sup>1</sup>. Mrs. Thatcher, as Prime Minister, has presided over a

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<sup>1</sup>The generic term "intergovernmental relations" is used to refer to both central-local relations in Britain and federal-states-local relations in the United States.

centralisation of authority within the intergovernmental system, while President Reagan has proclaimed a decentralisation of authority as one of the major objectives of his "second American Revolution".

President Reagan articulates his support for decentralisation in terms of a return to the constitutional principles of federalism which, he argues, requires a reduction in the powers of the federal government relative to state and local government. He also couches his support in terms of the desirability of increasing the discretion of states and localities, as the units of government closest to the people, to define their own problems and pursue their own priorities.

In line with these justifications he has reduced the number of categorical (specific) federal government grants and has increased the number of block grants. Categorical grants are provided for a specified purpose, frequently are accompanied by a variety of federal conditions and regulations which state and local governments must adhere to in order to receive the funds, and usually require a matching grant from the recipient government. Block grants permit the recipient to spend the grant for a wide range of purposes within a functional area (e.g. for education rather than, as with a categorical grant, for bilingual education only, or for school libraries only), usually with few federal conditions or restrictions, and without a required matching grant. During his last term, the President was able to successfully consolidate over 75 categorical programmes into nine block grants. (Although by 1984 there were still, according to ACIR (1984, p.2) 392 categorical grants which, in aggregate, accounted for the majority of grant expenditure. Nonetheless, this represented a decline of 142 categorical programmes or 26.6% since 1981).

In addition, many existing programmes were amended in order to reduce federal restrictions on their use, providing recipient governments with greater discretion on whom to serve and how services are to be provided. Major federal-state grant programmes such as Aid to Families with Dependent Children (Public Assistance) and Medicaid (medical care for

the poor) were changed to encourage state experimentation with diverse approaches. In some cases the implementation of federal regulations on private sector activity has been decentralised more to the state level<sup>1</sup>.

It should be noted that many of these changes were explicitly designed, in accordance with the President's interpretation of federalist principles, to enhance the power of state government not only with respect to the federal government, but with respect to local governments as well. In particular efforts were made to break direct federal-local links and to conduct federal-local relationships through the agency of state governments. Federal aid to local governments was restructured as much as possible so that, instead of being provided directly, state governments would be responsible for determining the distribution of federal aid to local governments. Thus, although several of the categorical programmes consolidated into the new block grants had provided funds directly to local governments, the new block grant programmes all provide funds directly to state governments.

Mrs. Thatcher has not justified her policies in the name of "centralisation" in the same way that President Reagan has in the name of "decentralisation". Instead, the primary rationale for these

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<sup>1</sup>Thus, Peterson (1984: 226-287) writes: "The Reagan Administration has delegated to the states greater responsibility for implementing the rules that govern the operation of surface mines, for example, by changing the condition of delegation from one that required states to have in place programs "no less stringent than federal rules" to one requiring state programs to be "no less effective than federal rules". The new performance standards allow states flexibility they did not formerly possess to tailor their regulatory restrictions to take account of differences in climate, geography, and other local conditions. In air quality regulation, the administration has promulgated generic standards that state emission-trading plans must meet, but has dropped the requirement of case-by-case federal review of proposals that fall within its general guidelines. This step has freed states to exercise more initiative in putting together market-based plans, like the sale and purchase of emission rights, which let firms meet air quality standards in a least-cost manner.

policies has been the need for central government to carry out its macro-economic policy through control of public sector spending, of which local authority spending is an important component (25.6% as of 1984). In addition she has contended that her policies are needed to increase the accountability of local elected officials - and the policies they pursue - to the local citizenry. The obvious and inevitable result of these policies, however, has been to substantially reduce the scope of local autonomy and to increase the presence of the Central Government in determining local outcomes.

The first wave of these policies was aimed at reducing local authority spending through manipulation of the grant system. Thus, a new system of general grant introduced at the beginning of the 1980s included provisions for reducing the rate at which additional local authority spending attracted government grant (and, in extreme cases, even withdrawing the amount of grant received) for local authorities spending more than their expenditure needs. Expenditure needs are determined through "objective" criteria, by the central government. Later modifications included grant penalties for local authorities spending over their "targets" defined in terms of percentage increase over their previous year's spending. The next round of legislation limited the ability of local authorities to raise their own resources, first through ending their ability to impose supplementary rates (i.e., to increase taxes in the middle of the fiscal year in response to unanticipated or unplanned-for expenditure needs), and finally through imposing a ceiling or cap on the amount of revenue from the local rates that could be raised by those local authorities who were the greatest overspenders. The most recent and publicised centralising policy has been the outright abolition of the Greater London Council and the metropolitan counties, which form the upper tier of the dual tier system of local government in the metropolitan areas. The metropolitan counties have consistently been at the top of the list of high spending local authorities.

While public attention has focused primarily on the above policies, a variety of other policies have also had important centralising impacts. In particular, the central government has greatly eroded the ability of

local authorities to set their own rent levels for council housing. They have done this by assuming a notional annual rent increase in their calculation of housing subsidy due to local authorities and then deducting the value of the expected increase from the housing subsidy paid. New central government legislation has also made it mandatory rather than optional for local authorities to sell council housing to tenants at substantial discounts.

What can explain this divergence in policy between the two so otherwise like-minded leaders? The answer is quite simple. The conduct of intergovernmental relations is seen by both leaders as a vehicle for achieving policy goals; the relative degree of centralisation/ decentralisation is thus a political tactic rather than a political objective.

The terms decentralisation and local autonomy are frequently used in political discourse as though they are ends in themselves. In fact more thoughtful discussion pushes them further down the ends-means chain so that they are justified in terms of other values or objectives they are believed to promote (frequently as a matter of faith rather than empirical evidence). These objectives include increased participation, better representation - i.e, a closer relationship between citizen preference and public policy, greater accountability, increased policy innovation, and political stability (see B. C. Smith, 1985, chap. 2 and Wolman, 1982). Decentralisation thus becomes an objective because it is seen as contributing to other more fundamental objectives; its status in academic discussion is thus somewhere between that of an end and that of a highly important strategy for achieving other ends.

Its status in actual political usage, however, is less elevated. Both Reagan and Thatcher have employed the conduct of intergovernmental relations not as an end or even as a major strategy, but as a tactic in the service of other strategies and ends. In so doing, they are using their differing intergovernmental systems as vehicles for achieving similar objectives whose values are deemed more important and fundamental than those relating to the intergovernmental distribution of

power. These shared objectives are a reduction in the role of the public sector in the economy, including the public sector at the subnational level, and a decrease in the amount of spending for social welfare or welfare state programmes, which are seen as sapping individual initiative and responsibility, reducing work incentives and risk-taking, and penalising, through the heavy taxation necessary to support them, the more successful.

In addition, changes in intergovernmental relations are also being used in both countries as a means of accomplishing the more traditional political objectives of rewarding politically supportive constituencies and depriving opposing ones. Changes in intergovernmental relations are not policy-neutral; they result in changes in the patterns of winners and losers from public policy. In the American context political scientists have long observed that minority groups, the poor, urban interests and labour organisations are more influential at the federal level than in most states and are likely to have their interests less well served by decentralised policy-making. Indeed, this is a view apparently shared by Ronald Reagan. In a 1981 interview with the New York Times he commented on the liberal bias of federal policy, remarking

"It's far easier for people to come to Washington to get their social programmes. It would be a hell of a lot tougher if we diffuse them and send them out to the states. All their friends and connections are in Washington". (Quoted in Wolman and Teitelbaum, p.303).

A recent study by Wolman and Teitelbaum (1985 p.329) confirmed that the interests of many of these groups would be poorly served by decentralisation. Utilising measures of the extent to which the interests of various groups are served in each of the fifty states (relative to the interests of other groups in the state), they concluded that

"a continued decentralisation of policymaking to the states does imply a different set of winners and losers. At least in the short run, many groups that are influential and effective at the federal level - particularly in the human resources area - would be at a disadvantage at the state level because they are not at present effectively organised there. Overall a widespread decentralisation would imply that certain interests - the poor and labor, especially - would be disadvantaged relative to other interests in low-income states and in states with a higher percentage of poor people or minorities".

The gist of the argument, then, is that given differing political structures, different means are required to achieve essentially the same ends in the two countries. Centralisation in intergovernmental relations in Britain is thus employed to accomplish the same objectives as is decentralisation in the United States. The use of intergovernmental relations as a vehicle or tactic in the service of these goals is more obvious in Margaret Thatcher's case; she has not attempted to portray centralisation as a virtue. (Indeed her rhetoric immediately after becoming Prime Minister actually portrayed decentralisation as desirable.) It is less obvious with respect to Ronald Reagan given his strongly articulated support for decentralisation, although as the above quote suggests, he was clearly aware of the policy distribution implications of decentralisation. In addition, the true ascendancy of what might be termed more fundamental goals and traditional constituency rewarding objectives becomes evident from a more comprehensive view of government policies. For while a variety of other policies has supported the transcendent objectives, many have not promoted decentralisation or have even been centralising in effect.

First, it is interesting to note that despite the divergence between the two countries with respect to centralisation-decentralisation, both countries have substantially reduced grant in real terms. In the United States real grant to state and local government declined by \$13.9



billion or 15.2% between 1980 and 1983, dropping from 3.5% of GNP to 2.9%. In addition it should be pointed out that the consolidation of the 75 categorical programmes into 9 block grants referred to earlier was accompanied by a reduction of approximately 20% in the amount of funding available for the newly constituted more decentralised programmes. In Great Britain the real value of total government grant fell by £2531 million or 18.5% between 1979/80 and 1982/83.

It might be argued - indeed it was by some in the United States - that grant reduction served to increase local autonomy, since it placed greater responsibility for revenue raising on subnational government and reduced their "dependence" on federal grants. (In this case the reduction of grant in Britain could be seen as a "decentralising" counterweight to the centralising policies already cited.) It is more reasonable to argue, however, that grant reduction decreased local autonomy by diminishing the resources actually available to subnational level governments. Regardless of whether grant reduction is seen as decentralising or centralising, it is clear that the result is to make it more difficult for subnational governments to support existing spending levels<sup>1</sup>.

The Reagan Administration has taken or proposed a variety of other actions in support of its broader goals of restraining state and local spending and of rewarding its own political constituency. Many of these actions have served to reduce local autonomy and to limit the ability of state and local governments to raise resources and pursue their own

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<sup>1</sup>Some might contend that though this was the effect of grant reduction, it was not necessarily its primary purpose and that, in both countries grant reduction was essentially a necessary tactical response to national government fiscal pressure and the need to control large national budget deficits. However, in the U.S. it is clear that to a substantial extent, President Reagan brought about a large budget deficit (through a combination of large tax cuts and increased defense spending) as a conscious strategy to force reduction in domestic programme spending and its most vulnerable component, federal grant programmes.

priorities. It has ended the General Revenue sharing programme, the only federal programme which provided unrestricted general grant to state and local governments.

The Thatcher Government has also reduced the value of the Rate Support Grant, its general grant. In addition, it proposed reducing the power of local authorities to spend from the rates for local purposes not specifically permitted by Parliament under the ultra vires doctrine (presently local authorities may spend up to an equivalent of a 2p rate in the pound for such purposes). The proposal was eventually withdrawn.

The Reagan Administration has also successfully supported limiting the ability of state and local governments to issue tax exempt bonds on behalf of private sector projects which serve a public purpose. Interest paid to state and local government bondholders is exempt from federal government taxation. As a consequence states and localities are able to issue bonds at interest rates 2-3 percentage points lower than those on corporate bonds of similar maturity. Over the past decade subnational governments have, in effect, issued bonds the proceeds of which they have then loaned to private firms for industrial development projects, to financial institutions for mortgage loans and student loans, and to nonprofit hospitals for hospital construction. In so doing they have passed along the 2-3 percentage point interest rate subsidy to these private entities. The Administration views these tax exempt private-sector purpose bonds as a diversion of resources from more productive market determined purposes, and is, of course, not happy about the loss in federal revenue (nearly \$15 billion in F.Y. 1985) resulting from the tax exemption. In 1984 it successfully supported legislation which placed a state by state cap on the dollar volume of tax exempt private purpose bonds a state could issue for industrial development bonds and student loans.

More dramatically, the President's tax reform proposal would drastically reduce the revenue-raising ability of state and local governments by eliminating the existing provision which permits taxpayers to deduct state and local taxes from income prior to

calculating their federal income tax. The Treasury calculates that this provision cost over \$30 billion in federal revenues in fiscal year 1985.

The argument used by the President in his proposed (May, 1985, p.64) is instructive:

"The deduction for state and local taxes may also be regarded as providing a subsidy to state and local governments, which are likely to find it somewhat easier to raise revenue because of the deduction."

The rationale presented by the Treasury Department in its original Nov., 1984, proposal is even more revealing (p.62) in its emphasis on reducing the public sector role relative to the private:

"The current deduction for state and local taxes in effect provides a federal subsidy for the public services provided by state and local governments, such as public education, road construction and repair and sanitary services. When taxpayers acquire similar services by private purchase (for example when taxpayers pay for water or sewer services), no deduction is allowed for the expenditure. Allowing a deduction for state and local taxes simply permits taxpayers to finance personal consumption expenditures with pre-tax dollars."

The Treasury Department document also goes on to point out that "the subsidy provided through the current deduction for state and local taxes is distributed in an uneven and unfair manner. Taxpayers in high-tax states receive disproportionate benefits". It is thus the high-tax states which will be most adversely affected by repeal. These states read like a list of traditionally Democratic dominated urban states with a liberal social welfare tradition. The ten states whose taxpayers would suffer the greatest per capita loss as a result of the end of deductability are, in order, New York, the District of Columbia, Maryland, New Jersey, Delaware, California, Massachusetts, Minnesota, Michigan and Wisconsin.

What has been the effect of these (and other) policies in achieving the shared objectives of the Thatcher and Reagan Administrations? Both governments have succeeded in reducing subnational government both as a percentage of total public sector spending and as a percentage of Gross National Product. In the United States, state and local expenditure stood at 37.1% of total public expenditure and 13.5% of GNP when President Reagan took office after 1980. By 1984 state and local expenditures had declined to 34.9% of public spending and 12.9% of GNP. In the U.K. local authority spending amounted to 27.7% of public spending and 10.9% of GNP when Mrs. Thatcher's government came to power in 1979. By 1984 local authority spending had fallen to 25.6% of public sector spending and 10.0% of GNP (see Table 1).

Table 1: Subnational Government Spending as a % of

<u>Public Sector Expenditure</u>				<u>G.N.P.</u>			
<u>U.S.</u>		<u>U.K.</u>		<u>U.S.</u>		<u>U.K.</u>	
1980	1984	1979	1984	1980	1984	1979	1984
37.1	34.9	27.7	25.6	13.5	12.9	10.9	10.0

Source: U.S.: U.S. Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1984.

U.K.: Social Trends 1985, National Income Accounts, 1985.

The pattern of overall government spending has also changed in the manner desired. In the U.S. social welfare spending (education, social services, income maintenance, and health) at all levels of government fell as a percentage of all domestic spending (thus excluding defense) from 43.9% in 1979-1980 to 41.8% in 1981-82 (Source: Bureau of the Census, Governmental Finances in 1981-82).

The reductions in grant and changes in grant structure not only served to reduce the resources available to subnational governments in both countries, but also to rearrange the distribution of government aid more in favour of the Government's supporters. In the U.S., the greater importance of block grants gave more discretion to state governments over the distribution of federal aid. The result was a "spreading"

effect with states reducing the federal government's previous concentration of funding on Democratically controlled large cities in favour of a politically more viable (for state governments) distribution among a broader range of local governments. Block grant funds were thus distributed with a heavier emphasis on population factors relative to need factors than had been the case in the past (Wolman, 1984). The combined impact of changes in federal and state aid reduced grants to central cities - the Democrats' core constituency - by \$30 per head in real terms between 1978-1983 (-6.9%), compared to a reduction of \$10 per head (-4.2%) for suburban areas, where Republican support is concentrated.

In Britain grant to the Inner London Boroughs, dominated by Labour, fell by 25.0% in real terms during the same time period, while grant to London's outer suburban boroughs, areas of substantial Tory support, fell by only 15.4% (Goldsmith and Wolman, 1985). The proportion of total rate support grant distributed to London authorities fell from 16.8% in 1979/80 to 14.8% in 1984/85, while the proportion distributed to the heavily Tory non-metropolitan authorities increased from 53.6% to 54.2%. During the same period grant to the metropolitan authorities also rose from 29.6% of total grant to 31.0% (Source: CIPFA). Most of the local authorities suffering grant penalties and nearly all which have been rate capped have been Labour-controlled authorities.

This paper has argued that Reagan's decentralisation in the United States and Thatcher's centralisation in Britain are both means in pursuit of more important shared ends: a reduction in the role of the public sector in the economy, a reduction in subnational government spending, and an end to "social welfare" or welfare state mentality (though not necessarily an end to all its policies and spending).

Indeed, it may be misleading even to characterise Reagan's approach as decentralising and Thatcher's as centralising. Viewed from a broader perspective, both governments see themselves in populist terms, decentralising power to the grass roots. In both cases, there is an effort to provide individuals with more "power", in effect bypassing

local government institutions, which are seen as distorting true citizen preferences. In this view, the local political elites are unrepresentative and are able, because of the inability of local general elections to enforce conformity between public opinion and public policy, to impose tax/spending packages at a higher level than the citizenry actually prefer.

The American state and local tax revolt, of which President Reagan was a strong supporter, reflects this viewpoint. The tax revolt took taxing and/or spending decisions out of the hands of elected representatives, imposing arbitrary limits which could be breached only by popular referendum. Indeed, the Thatcher government at one time seriously considered imposing a referendum requirement for increased local authority spending, but concerted opposition from the local authorities and their associations forced them to abandon the proposal. The Thatcher rhetoric has continuously emphasised the need to protect the local citizenry (and particularly local ratepayers) from the policies of their elected local councils. More broadly the Thatcher Government has bypassed local government, empowering citizens and consumers directly with rights such as the right of council tenants to purchase their houses and required participation of parents on local school governing bodies.

The decentralisation/centralisation spectrum, as traditionally conceived, is an inadequate perspective from which to analyse the purposes, policies, or impacts of the Reagan and Thatcher governments. Stripped of these trappings the two governments are seen to be travelling fundamentally similar paths in pursuit of broadly shared objectives.

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