

# Opening Remarks

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We have been discussing issues associated with devolution for several years here at the Federal Reserve Bank of Boston, so I am really pleased to bring together a group of experts to consider the challenges posed by this trend. I am hopeful that this meeting and the publication of its proceedings will produce a better understanding of the process of devolution as well as some new directions for policymakers.

Since the founding of the Republic, the proper division of fiscal and regulatory authority between the federal and state governments has been debated vigorously in statehouses, courthouses, and the Congress. If the framers of the Constitution were alive today, they would not be surprised at these debates. The framers understood that the optimal allocation of powers and responsibilities among levels of government would vary with changes in the nation's economic, political, and social environment. Consequently, they built a lot of flexibility into the Constitution to allow the allocation of responsibilities of the various levels of government to respond to changing circumstances.

During the four decades following the Great Depression, power and authority became increasingly centralized in Washington. In the financial arena, we have seen some movement in that direction as well since the founding of the Federal Reserve System in 1913. But during the past two decades, the pendulum has swung back toward the states. Faced with large deficits, the federal government has cut back its intergovernmental assistance in many policy areas and has given states greater flexibility in how they spend their money. In recent years, both the Congress and the courts have curtailed the ability of the federal government to impose regulatory enforcement responsibilities on the states and their municipalities. Congressional leaders have proposed legislation that would shrink the federal role in our federal system of government even further.

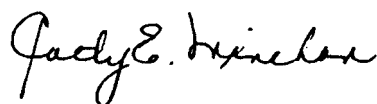
We invited you here today to consider the movement toward devolution from both normative and empirical perspectives. The morning program will be devoted to the movement's origins, its merits, and its drawbacks. Why has devolution's following grown in recent years? What economic developments have reinforced the view that the federal government should play a smaller role in the nation's governance? What pressures and perceived failures of federal policy have led people to turn to state capitals for solutions instead of Washington? What philosophical and theoretical arguments support devolution? What arguments do devolution's opponents offer to defend their views? And how are other countries currently approaching the issue of intergovernmental relations and why are their solutions different from ours?

Presiding over this morning's session will be George Latimer, Professor of Urban Studies at Macalester College. Professor Latimer is one of the country's leading authorities on urban issues, and he has a special interest in public/private partnerships that encourage growth and the development of affordable housing. He has spent much of his career implementing innovative housing policy.

Our afternoon session will take a more empirical bent. However you may feel about devolution in theory, we have already begun the process. Can we glean any clues from existing data about the likely response of state and local governments to movement along this path? How do they differ in their capacity to respond? For example, how are the states behaving during the early stages of the new welfare act, Temporary Assistance to Needy Families? What administrative difficulties are the states encountering and what others are they likely to confront if devolution proceeds further? What is the likely distributional impact of devolution? What will be the likely behavioral effects of shifting from categorical to block grants? How will devolution affect the nonprofit sector? What evidence can we infer from the experience of other nations concerning devolution's effects? And finally, are there empirical pitfalls that future researchers should be aware of as they begin to design their studies of devolution?

Our moderator for the afternoon will be Helen Ladd, Professor of Public Policy Studies and Economics at Duke. Dr. Ladd is an internationally recognized expert in public finance who has written extensively on fiscal issues. Much of her current research focuses on education policy, in particular, performance-based approaches to reforming schools.

Those in attendance here include experts in intergovernmental relations, researchers currently conducting studies on devolution, business leaders, former mayors, state legislators, and federal policymakers. We also have leaders of national interest groups and private social service organizations whose constituents are significantly affected by devolution. We at the Boston Fed hope that we can learn from one another about this important change that is now taking place.

A handwritten signature in black ink, reading "Cathy E. Minehan". The signature is written in a cursive, flowing style.

Cathy E. Minehan  
President and Chief Executive Officer  
Federal Reserve Bank of Boston