

Statement of
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NOTICE

This statement is not available for public
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Mr. Chairman, I am pleased to appear before this Committee to report on work in progress by the Congressional Budget Office on environmental federalism. Programs to protect the environment are increasingly shared by federal, state, and local governments. At every governmental level, constraints exist on the resources that can be devoted to both existing and emerging problems. My testimony today highlights some of the trends in environmental federalism and reviews some specific criteria that may help guide the Congress in making decisions concerning the role of governments in environmental protection. My remarks summarize a staff working paper prepared at your request and released today, entitled: "Environmental Federalism: Allocating Responsibilities for Environmental Protection."

TRENDS IN ENVIRONMENTAL FEDERALISM

The relationship between federal, state, and local governments in the field of environmental protection has changed profoundly over the last 30 years. From being primarily a state concern in the 1950s and 1960s, environmental protection became

increasingly a federal concern during the 1970s. Since the 1970s, however, the role of governments has changed again, notably in the major air, water, and hazardous waste programs, in which a growing portion of both program and funding responsibility has been taken on by the states. The same is true for many emerging or new environmental programs such as indoor air pollution and groundwater contamination. By design or default, much of the new regulatory activity in these areas is coming from the states.

Program Responsibility

Most states now run their own air program under the Clean Air Act; 39 states run permit programs as required by the Clean Water Act; and more than 40 states administer all or part of the hazardous waste programs under the Resource Conservation and Recovery Act. The role of the federal government has shifted to maintaining a strong role in enforcement, to overseeing and approving state plans, and to providing technical guidance and funds for research.

In the newer environmental programs, states are responsible for initiating many of the regulatory initiatives for control of toxic pollutants in the air, both outside and inside homes; for protecting groundwater quality and quantity; and for limiting nonpoint-source pollution of surface waters.

Funding Responsibility

This evolution of program responsibility is reflected in the funding for environmental programs. While total environmental program budgets for federal and state governments combined have increased in recent years, the mix of federal and state funds has changed. Compared to ten years ago, EPA's operating budget for the major air, water, and hazardous and solid waste programs has declined in real terms from a peak of \$1.1 billion to around \$800 million (in 1987 dollars). Federal grants to states have also decreased by almost half, from almost \$500 million in 1979 to around \$250 million in 1987. Meanwhile, estimated state expenditures in these areas, excluding money from federal grants, rose from around \$200 million in 1982 to over \$400 million in 1986. Thus, states are funding a growing portion of the nation's environmental programs. In 1982, EPA program grants to states covered approximately half of total state expenditures on air and water quality and three-quarters of state hazardous and solid waste management costs. By 1986, the federal portion had dropped slightly for air quality and had declined to one-third for water quality programs and to 40 percent for waste management.

These changes in program and funding responsibility have not come without costs. Many states and municipalities complain that they are overburdened by their new responsibilities and are or will be unable to raise the

necessary revenues to continue to manage and enforce existing programs and develop new ones. In addition, the nature of the emerging federal/state and local partnership provides greater opportunity for tension between levels of government as states seek greater autonomy from federal requirements in line with their increased responsibility for paying the way.

ALLOCATING PROGRAM AND FUNDING RESPONSIBILITY

The roles for federal, state, and local governments in environmental protection have not yet been fully defined. Governmental roles in the more mature air and water programs continue to evolve. Newer environmental programs present an even cleaner slate for defining governmental roles. The ultimate assignment of responsibility for environmental protection among different levels of government will determine, in large part, the types of programs that are developed, the effectiveness of these programs, and the level of environmental quality achieved.

Federal, state, and local governments are not equally capable of handling all the different activities--for example, standard setting, program design, enforcement, and funding--that are associated with environmental protection.

To assist the Congress in determining what is the most appropriate division of effort among the different levels of government, our working paper reviews a set of broad economic guidelines. These guidelines argue for a division that promotes levels of protection and types of programs that are efficient and also equitable. By efficiency we mean that a program should balance benefits and costs, that benefits should be achieved at the lowest cost possible, and that benefits should accrue to the people and groups who place the most value on them. By equity we mean a fair distribution of benefits and costs. For example, equity may imply that the costs of environmental programs should be borne by those with responsibility for the problems to the extent that they are able to do so. Equity also implies that the benefits of environmental programs should be evenly distributed among different groups.

In general, the level of government best suited to running environmental programs is the level that is best able to assess costs and benefits accurately and to act on that assessment to produce environmental programs that are efficient and equitable. Levels of government typically vary in their abilities to do this.

Smaller units of government tend to be closer to the environmental problem and to the persons and firms affected.

As such, they may have better information on local circumstances and thus be able to assess costs and benefits more accurately. If so, they may be able to provide programs that better address specific local problems and circumstances. Smaller units of government may also have an advantage in terms of flexibility and the ability to provide more innovative solutions to environmental problems. These same characteristics may also enable lower levels of government to be more responsive to equity concerns.

Larger units of government on the other hand, may be able to provide more efficient and equitable environmental protection under certain circumstances. If a substantial number of people and firms receiving benefits or incurring costs under a program are located outside the boundary of a jurisdiction, it is less likely that the local government will take into account the preferences of these groups and accurately assess the level and distribution of the costs and benefits. In addition, some activities (such as setting health or technology-based standards) require substantial amounts of technical information. Small governmental units may not be willing to incur the costs of developing or acquiring this information. Finally, a program may have economies of scale in administration or construction, as in issuing permits or building wastewater treatment plants. If so, then larger government units may be better able to capture these economies

and provide lower-cost services.

The degree to which these guidelines will give preference to one level of government over another depends on the specific program activity and environmental problem. Consider, for example, the task of setting standards. Variations in local standards allow flexibility in responding to unique regional circumstances, and allow the adoption of environmental quality levels that reflect local benefits and costs. On the other hand, uniform national standards provide a minimum standard of health for everyone, and thus may be justifiable on other than efficiency grounds.

As another example, it is often assumed that the governmental unit responsible for daily implementation of a program is in the best position to develop the most appropriate methods for funding it. This may not always be equitable and efficient. The costs of program management and compliance imposed by federal regulations may be substantial at the state and local levels. The burden of complying with these regulations may also be unevenly or unfairly distributed among jurisdictions; if so, then additional federal support may be justified on the basis of equity and as a mechanism for persuading state and local governments to comply with national regulations.

These guidelines will only be useful if they can be applied in a practical way to specific problems. In the next phase of our analysis, we will apply the efficiency and equity guidelines to a set of current environmental problems. We will be particularly interested, among other things, in the information requirements underlying many of the criteria and the ability of current monitoring and testing resources to provide that information.

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