

Theoretical and Practical Issues of Local Government Capacity in an Era of Devolution

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Abstract. The United States is in the midst of massive devolution or decentralization of domestic programs in health care, welfare, and other functions. With devolution come greatly increased responsibilities for local governments. As local governments are assuming more responsibility for policymaking, management, and implementation of important national goals, it is important to consider their capacity or ability to take on these added responsibilities. This article asks critical questions, poses problems entailed in measuring capacity, challenges the question of whether local governments have the necessary capacity to undertake new demands being placed on them, and discusses the special capacity-building needs of local governments. It may be more important for local governments to be able to obtain additional capacity to meet new challenges than for them to have the capacity in order to be ready to receive the new challenges. In a sense, it is irrelevant whether they have the capacity because the federal government with considerable public support has decided that local governments will take on more responsibility for domestic programs. The question, then, is what can be done to help them perform their expanded roles as well as possible. Information sharing, networking, removing barriers to local flexibility and creativity, and technical assistance are some of the opportunities higher-level governments and other technical assistance providers, such as universities, have for increasing the capacity of local governments.

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1. Introduction

The so-called 'Devolution Revolution' of the 104th Congress was the most recent scene in the ongoing drama called 'the new federalism.' Since the 1960s with the profusion of programs centralized at the Federal level, there have been numerous attempts to turn back responsibilities to the states and localities.

The issue of local government's capacity to implement these responsibilities has been a concern of policy makers and scholars alike. A study of the implementation of Federal clean water standards by local governments found that "...given ...constraints on action and the absence of any national or state policy guidelines, the decision to privatize [water treatment works] required substantial local discretion in the use of an innovative means of complying with and implementing national policy (Johnson and Heilman 1987, 475)."

There is a dependency between the Federal government and subnational governments:

"For federal authorities, dependency often means that federal initiatives succeed only if state authorities develop an ability and willingness to carry out what are essentially federal standards. For the states, dependency means that state regulatory efforts are subject to federal approval, oversight, and funding." (Hedge, Menzel, and Krause 1989, 291)

One of the arguments supporting devolution is that devolution will actually help *develop* local capacity as opposed to just depend upon it:

"By engaging in policy planning, local citizens further develop the skills, experience, connections, and the will to plan and implement local policies, projects and programs. Under this assumption, local leadership is developed and the structure of opportunity is changed so that both local institutions and individuals are better able to perform on their own behalf." (Chaskin and Garg, 1997, p. 634)

The devolution taking place in health care and welfare reform has prompted numerous foundations to fund massive studies all over the country investigating the effects of devolution.¹ The Kellogg Foundation's 'Devolution Initiative' surveyed 3,400 U.S. households about Americans' opinions about welfare and health care reform. Among the many results of the survey are that 70 percent of poll participants believe devolution will enable more people to have a say in how government programs in their communities work; and that 31 percent of the participants believe that states and 26 percent believe that localities are best suited to setting standards for the care of the poor, while only 15 percent believe the Federal government is best suited to set such standards (W.K. Kellogg Foundation 1999). These numbers suggest that Americans perceive devolution as a positive development in terms of citizen participation and setting appropriate standards for major domestic programs.

Given these developments in federalism and in the public's relative confidence in local government performance, this paper addresses two related questions. First, do local governments have the capacity to assume new responsibilities? Second, if current devolutionary trends continue, what are the future capacity needs of local government? The following discussion considers local governments' capacity to take on responsibilities that have been shed by higher levels of government and also on the capacity-building needs of local governments. This paper intentionally raises more questions than it answers, but its purpose is to stimulate thoughtful discussion and further research.

2. Raising Critical Questions

The question of whether local governments have the capacity to assume many new responsibilities is essentially unanswerable in the general. Even if we could perfectly define and comprehensively and empirically measure the capacity of each and every local government in the United States to assume new responsibilities, we would inevitably find enormous variation in capacity from city to city, state to state, and region to region across the country.

¹ The Urban Institute's extensive New Federalism Project is funded by no fewer than sixteen of the nation's most prominent foundations. The W. K. Kellogg Foundation's Devolution Initiative, focused on healthcare and welfare reform, is a \$17 million program funding 19 grantees with activities in forty states, including a grant to the Nelson A. Rockefeller Institute of Government at SUNY - Albany to study state administrative capacity. The purpose of this program is to help states and communities understand the shift in policy-making to subnational governments.

2.1 Asking the Right Questions

The basic question about the local capacity to take on additional responsibilities would have to be modified in order to be meaningful. Some possible questions would be: On average, do counties have the capacity to assume more of a *managerial* role in, say, a reformed welfare or workforce development system, given their historical role in *administering* programs that had been more centrally directed? Is there sufficient capacity in the poorest localities to deliver quality services to the neediest segments of society?² What capacity to deliver x, y, or z service do local governments have? (The organizational infrastructure required to process claims for welfare benefits may not convert well to developing a system to meet the demands of employers for qualified workers.) Why are some local governments better able to take on added responsibilities than other local governments that appear to have the same level of capacity? What are the critical variables?

2.2 Operational Problems

There are other daunting problems that would have to be overcome even if the right question were posed.

2.2.1 Measurement

First is the impossibility of measuring important dimensions of capacity. Even if one could abstract the elements of the total concept 'capacity,' what *indicators* of capacity would one look for, and what *data* are available to *measure* these proxies for capacity? For instance, no one would deny that talent, intelligence, industry, educational background, commitment, and experience are important dimensions of human resource capacity. All personnel are not created equal, so two local governments with identical numbers of staff are not necessarily equivalent in their human resource capacity. Given this complexity, how can one begin to measure the differences among local governments in their staffs' capacity to manage local affairs? Some rudimentary measures might

² One question not being addressed in the present paper is equity. According to one study of the new federalism, "If states and municipalities are to have the capacity to play a more prominent role in the nation's federal system, they probably will need new sources of revenue....Whatever level of intergovernmental assistance the nation considers optimal, it might consider it in a more fiscally equalizing manner." (Tannenwald 1998, 72) Another concern about equity is raised by Eisinger, who wrote, "...[T]he New Federal Order has placed a premium on local public management skills and discouraged grand visions of social and racial reform." (Eisinger 1998, 319)

include things like turnover rates and simple ratios such as the percent of the government's budget in wages.

2.2.2 Differences in Resource Combinations

Related to these theoretical and empirical issues is the reality that the elements of capacity (or factors of production, if you will) may be combined in different ways to achieve the same results. Local governments will have different ways of implementing mandates that are in harmony with local experience and institutional options. For example, if one took the simple measure of number of local government employees as a proxy for capacity (and this is a commonly used measure in the literature on capacity), it might unduly ignore the supporting roles of volunteers and personal responsibility in achieving a given level of outcome for the individual. Further, are full-time equivalent employees equivalent in more than just the number of compensated hours on the job? Take a small town with two half-time paid employees versus a village with a full-time clerk. The small town may be getting a bigger bang for its buck because the part-timers are more productive than the clerk working alone or *vice versa*. Yet the comparison of local governments by the number of full-time equivalent employees is never questioned in this way.

2.2.3 Variations in Efficiency

Moreover, there is the issue of whether resources are being used efficiently. A highly professionalized urban county may have more capacity to carry out a welfare program than a poor, rural, volunteer-run county. However, it is by no means clear that a bloated bureaucracy *ipso facto* has more capacity than a lean one. In fact, the opposite is more likely to be true. Likewise, a local government may not have the level of capacity one would expect, given a certain amount of information-processing capacity, if the staff are not trained in the use of computer resources at their disposal. Additionally, the quality of management is a major determinant of how effectively a unit of government utilizes the capacity it has.

2.3 Accounting for Change

The concept of managerial or governance capacity is not static. It is not like physical capacity in the sense of being able to measure the potential of a vessel to hold a defined amount of liquid, a computer to store so many bits of data, or an auditorium to seat a certain number of people. The kind of capacity we are talking about here changes over time. What we would have considered adequate capacity to manage a certain

caseload ten or twenty years ago changes as technology has expanded the number of clients one person can manage to deliver a given quality of service.

Further, the familiar concept of a learning curve automatically makes capacity a moving target. Take five counties who participated in a welfare reform pilot and compare them to five nonparticipants with the same contextual variables (e.g., demographics, economic situation, similar clientele) and internal capacity (e.g., professionalism, number of employees, types of equipment, training resources) to provide services. All other things being equal, the counties with the experience will have more capacity to assume new responsibilities simply by virtue of their deeper background in the field.

Moreover, there is significantly more complexity involved in devolving services such as welfare, vocational rehabilitation, and mental health services where the outcomes are hard to measure in contrast to services such as filling potholes or plowing streets where the effectiveness of programs is relatively easy to measure.

2.4 Understanding Spatial Differences

Third, the concept of capacity varies over space because some local governments have ready access to additional sources of capacity. It is not enough to compare the attributes of different local governments to assess their relative capacity. The service-delivery capacity of a social services office in an urban area may be augmented by ancillary services provided by numerous specialized agencies and private sector and non-profit organizations operating in the area (B. W. Honadle 1983, 1985).

A rural social services office with the same per capita budget, number of personnel per unit of cases, and complement of supporting equipment will have less capacity to meet the needs of its clientele because it does not have these complementary institutions in the community. The rural local government may also have fewer private vendors to meet the service demands of government programs. For example, one community may lack capacity to privatize health care services if there is not a large enough market or critical mass of clientele needing the service to make such opportunities profitable for private companies to offer the service. Also, depending on how isolated a rural local government is, it may or may not be able to cooperate with other local governments to gain additional capacity to deliver services through cooperative arrangements.

As George Honadle has found:

“In some settings there is a paucity of organizational alternatives to choose from, while in others there is a very

dense population of local organizations. Organizational density not only allows choice, it also changes local social dynamics by influencing competition versus monopoly and the intensity of interactions.” (G. Honadle 1999, 90)

2.5 Avoiding an Absolutist Concept of Capacity

Fourth, whether a local government has capacity to assume new responsibilities depends on how the existing capacity is being used. Capacity is a relative term, something that only makes sense compared to other places with more or less capacity or to a time in the past or in the future when there was or there is expected to be more or less capacity. It does not make sense logically to take ‘stock’ of all of the endowments of a local government at a point in time and, from that, arrive at a sum equal to that governmental unit’s capacity to handle new responsibilities.

A true assessment of capacity would take into account how those assets are currently being used and how they might be converted *if* there were a sudden need to do so. Is there excess capacity that could be brought on-line to meet the additional demands on a local government? Is the local government using all of its existing capacity to deliver essential services? Could a local government jettison some responsibilities it currently has, thereby liberating existing capacity?³

In other words, one could make the mistake of declaring that a certain local government has sufficient capacity to manage a new program without taking into account current responsibilities it might not be able to shed (at least in the short-run). Likewise, one could make the opposite mistake of pronouncing a local government as lacking in capacity when it might be quite willing and able to divert current resources (capacity) toward meeting the new responsibilities.

3. Challenging the Original Question

The question of local governments’ capacity to assume responsibilities being thrust upon them through devolution is important. But other questions are equally, if not more, significant.

³ The Canadian International Development Agency (CIDA) has identified six distinct methods of capacity development: creating new capacity, making better use of existing capacity, reducing the demand on existing capacity, eliminating old capacity, supporting research efforts, and changing the context. (Qualman and Bolger 1996).

3.1 The capacity to do *what*?

The very question of whether local governments have the capacity to assume responsibilities seems to imply that the responsibilities they are being given are the right ones for their communities. A logical question is whether local governments have the capacity to anticipate and influence changes in their own areas; develop policies and programs to shape their futures in appropriate ways for the local situation; attract, absorb, and manage the resources necessary to implement these programs; and evaluate their experiences to guide future directions (B. W. Honadle 1981). In other words, are they permitted the flexibility needed to govern and make rational policy choices, to carry out policies, and learn from their experiences?

Nathan and Gais make the point well in this passage from a report on the implementation of the Personal Responsibility Act of 1996:

“Differences in administrative resources may not have been particularly important when local offices mostly reviewed families for eligibility and issued checks, but they are important now when offices are responsible for explaining the new program responsibilities, helping link families with jobs, and arranging support services, all the while with ‘clocks ticking’ for families on the rolls.” (Nathan and Gais 1999, 65)

Warner studied the implications of devolution for local government finances and made this observation:

“Decentralization appeals to notions of efficiency and local autonomy. However, in the current debate on devolution, few are asking whether local governments have the capacity to meet the new demands being placed upon them. To be effective, local governments must have both the managerial and financial capacity to assume wider responsibilities.” (Warner 1999, 27)

Thus, it is important to be clear about what the expectations are before declaring that a local government has capacity to perform a given responsibility.

Different functions and tasks may require different types of capacity.

3.2 What Constitutes Enough Capacity?

Another question is how much capacity is *enough* to justify or support devolution? What is too little? When the now-defunct General

Revenue Sharing (GRS) program⁴ came into existence in the early 1970s, many small local governments arguably were lacking capacity to spend the funds. But it did not take them long to figure out how to use the funds for local purposes, enough so that the representatives for the smallest townships and cities lobbied hard (but unsuccessfully) to keep the program from meeting its demise in the latter half of the 1980s. So, it seems that sometimes local governments that appear not to have capacity are able to develop capacity when they need to do so. It is probably too strong to say that devolution is the mother of capacity, but it does create the incentive (if not the mandate) for local governments to get it.⁵

3.3 Types of Errors

Third, there is something of a 'type I - type II' error problem to be considered. That is, should we be more concerned about the error of devolving programs when there is not enough local capacity or about the mistake of keeping programs centralized when there is either enough local capacity or that capacity could be readily developed? Either mistake is costly, so it is important to assess how difficult it would be to create the capacity if it is lacking.

4. Capacity-Building Needs of Local Governments

With devolution comes more local government responsibility for policymaking. Local governments need technical assistance, research, and education to help them better understand their current conditions. They need objective information for decision-making. This includes demographic and economic information, information about options and alternatives, and information about what works in other places that local officials might want to try in their own locales. They need education about alternative policies and the likely consequences of their choices. In addition, they need knowledge about experiences elsewhere to help them see possibilities and avoid costly mistakes. Finally, they need on-going evaluation to help them make course corrections as they proceed with policy implementation.

Local governments also need specialized expertise. Healthcare programs, workforce development, and transportation require sophisticated

⁴ GRS was general-purpose grants to local governments as opposed to functionally specific aid delivered through categorical grant programs.

⁵ On a recent consulting mission to a city in Ukraine, I had to be struck at how much local government capacity had been developed in the nine-year period since independence from arguably one of the most centralized empires in the history of the world.

management. Local governments also need to manage holistically. Given the complexity and interrelatedness of issues, it is essential for local government policymakers and managers to be able to see and cope with the connections between childcare programs and workforce development, transportation and land use, and so on. In other words, intergovernmental management, or IGM, is important. IGM is focused on implementation and the central roles of policy professionals and has three defining features: problem solving, coping capabilities, and networking. One of the three factors associated with the emergence of IGM as a concept was the "difficulty in implementing numerous intergovernmental problems, a difficulty that focused prime attention on management problems" (Wright 1990, 170).

Some of the approaches to dealing with these capacity-building needs may call for consideration of a higher level of professionalism (e.g., professional administrators supporting elected officials), changing governmental structures (e.g., from elected officials to appointed), and functional cooperation (and sometimes consolidation) through intergovernmental agreements (e.g., shared facilities and personnel). These methods are merely tools that can help implement policies based on a solid knowledge and understanding of appropriate alternatives. The capacity could be developed through training and technical assistance, transfer of resources, or other means (B. W. Honadle 1982).

Capacity building may be characterized by reform or redesign:

"The difficulty encountered when introducing policy changes...relates to the nature of the change – does it go against the flow, or does it go with it; does it just reform or modify what is already there or does it eliminate something and substitute something totally new?" (G. Honadle 1999, 124)

For instance, if a local government already has experience with intergovernmental service agreements or contracting with the private sector for public works, then capacity building might involve adapting these approaches with which it has experience to social services.

The capacity building will come from various sources, including universities, local government associations, and higher levels of government. But, if devolution is to work, it must be orchestrated locally. In other words, local governments will need to take more responsibility for identifying areas where they need help and taking advantage of opportunities for research, technical assistance, intergovernmental cooperation, and so forth.

How capacity-building assistance is delivered and the source of that assistance is important (B.W. Honadle 1982). Local governments may

not be receptive to particular sources of help, depending on their past experiences with higher levels of government, universities, or other providers. They may perceive of universities as being too academic or arrogant to be practical or they may mistrust assistance from state government. Generally, capacity-building assistance providers need to show clientele that the assistance will help them and not burden them with additional risks (e.g., untried approaches) and costs. Thus, if outreach providers can show that approaches have worked well in other places and absorb some of the cost of experimenting with new approaches, they are more likely to be used by the target audience.

Sharing of information is a good role for broader levels of government and national associations because of the economies associated with collecting and disseminating this information. Universities can be especially helpful as a source of innovative or creative ideas (Brandl 2001), local data on conditions and trends (B. Honadle and Lloyd-Jones 1997), and a facilitator of local networks for decision making and action. States can play a role in examining perceived barriers to local flexibility to design and carry out locally-responsive programs. These barriers may include tax limitations, rules and mandates imposed by the state, and functional assignment statutes. Convening discussions between states and localities might be a means of identifying some of these obstacles and discussing changes in state-local relationships that might improve the environment for local capacity building.

5. Conclusion

The 'New Federalism' is, oddly, not new. It has been coming in various forms for at least a generation. In its different incarnations, the general themes of decentralization and turning back to the states and localities responsibilities for domestic programs have been at the fore. What appears to be *regaining* a lot of concern is the capacity of local governments in particular to assume added responsibilities being shucked by the Federal government.

This paper has tried to delineate the difficulties of trying to answer as seemingly straightforward a question as whether local governments have the capacity to take on new responsibilities. This question is complicated by conceptual (What do we mean by capacity?), measurement (What are reasonable proxies for capacity since it cannot be measured directly?), and data (Has anyone collected reliable data on a national scale to do the analysis?) concerns.

There is some evidence, based on a national survey, to suggest that citizens are more or less supportive of Congress' 'Devolution Revolution.' They seem to believe that states and localities are better equipped

to make policies affecting people's well-being than is the national government. There also appears to be the perception that devolution has a positive effect on citizen participation. These are subjective judgments, but, in a democracy, public opinion *is* important.

How we frame the question is often more important than the answer. Just asking the question of whether local governments have the capacity to take on added responsibilities is not enough. The questions that really matter have to do with such things as the types and purposes of capacity, equity of capacity from one place to another, and whether capacity can be converted from one use to another with relatively little loss of effectiveness. All capacity is not alike.

Asking the 'right' questions is important because the answers can lead to policy choices that might not be as effective as they could be. For instance, policymaker's perceptions of the relative capacity of local governments (*vis-à-vis* the Federal government or state government) to manage certain types of domestic programs might influence their views on whether or not to support the devolution of particular programs.

In considering local capacity, it is important to keep in mind that it is not a static concept. As knowledge and technology change, so does a unit of government's capacity to deal with problems. Likewise, as problems become more complex, more capacity may be needed to deal with them. It is also possible that the gap between the capacity a local government already has and the capacity it needs to manage certain types of programs is bridgeable through experience, technical assistance, the transfer of financial resources to the local government, or some other means of shoring up weak capacity.

The capacity needs of local governments will depend on the programmatic challenges they are dealt by the policymakers in Washington and state capitals. As much as anything, there is an ongoing need to monitor the implementation of devolution. This monitoring should consider such important issues as technical competence of providers, equity concerns, the unique needs of rural and small governments, and other policy-relevant variables. It will be useful to provide local governments the technical assistance and other necessary resources when policymakers deem local governments inadequate to the important national agendas for which they have been given increased responsibility. Higher levels of government, researchers, and educators can play important roles in disseminating knowledge about what does and does not work in the new order.

The question of whether local governments have the capacity to handle new responsibilities has, in one sense, been answered. The Federal policymakers have decided, for better or worse, that local governments are going to take on the responsibilities. Local governments need capacity-building support to perform well in these expanded and, in some cases, different roles. If devolution is successful, it may be that

policies will be more responsive to local situations than they were in the past.

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