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State Governments Overreach in Taking on Problems Best Solved at the National Level

By **ROBERT H. FRANK**

IN manufacturing, it is said, the French copy no one and no one copies the French. A parallel statement may soon apply to central elements of American public policy. In most of the world, for example, the primary responsibility for ensuring access to health care, regulating environmental quality and supporting basic scientific research is exercised by national governments. But in this country, these tasks are increasingly managed by state, and even local, governments.

Last week, for instance, Massachusetts became the first state to enact legislation trying to ensure that all its citizens have access to health care. At least 19 other states considered legislation expanding health care coverage in 2005. In January, eight states adopted new rules from the California Air Resources Board calling for a 30 percent reduction in carbon dioxide emissions from cars and light trucks by 2016, a step that Gov. [George E. Pataki](#) of New York has also pledged to take. And Maryland has just become the fifth state

to authorize state spending for basic stem cell research.

In each case, there are compelling economic reasons for delegating the activities to national, rather than state or local, governments. Yet in each arena, the federal government has failed to act. It refuses to participate in international efforts to limit greenhouse gases. It makes further cuts in federal support for basic scientific research, even as the nation's share of world patents continues to decline. And about 46 million Americans currently lack any form of health insurance.

Although it is no mystery why states are beginning to take the lead in these domains, it is important to understand why the recently enacted programs are destined to fall far short of what could have been achieved at the federal level.

The explanation begins with the question of why we have multiple levels of government in the first place. Almost all of us are subject to taxation and regulation by governments at the local, state and national level. Although multitiered government entails substantial redundancy and inefficiency, there are good economic reasons for it.

As the economist Charles M. Tiebout explained in a seminal paper published in 1956, an important advantage of providing public services at the local level is that this enables us to better achieve our desired mix of public and private

consumption.

People who like lots of parkland, well-maintained roads, large police forces and good schools can thus gather in high-tax communities that provide these amenities, while others can choose low-tax communities and spend more of their income on private consumption. Local government also minimizes the distance between citizens and the lawmakers who tax and regulate them.

But for some public services, like national defense, scale advantages rule out primary reliance on local government. Indeed, the fact that big countries can field more effective armies than small ones is the primary explanation for why large nations became the norm.

Scale advantages, however, do not explain why health care policy, environmental regulation and support for basic scientific research are best delegated to the federal government. Rather, the problem is that in each of these instances, programs at the state and local levels create perverse economic incentives.

A case in point is a proposal recently discussed in Ithaca, N.Y., where I live. Activists in this progressive upstate community (sometimes called "the People's Republic of Ithaca") called for a local income tax to finance a single-payer health care system for local residents. According to

health policy experts, such a system would eliminate the substantial waste associated with attempts by insurance companies to limit authorized services and avoid covering people with chronic medical conditions.

Yet, despite this advantage, a health system operated at the local level could never work. Because people are free to move, such a plan would attract uninsured people with chronic conditions from surrounding cities, substantially raising the program's cost. In turn, the need to raise income tax rates would induce many of the community's more affluent taxpayers to flee to neighboring cities. The resulting death spiral would quickly doom the program.

Like local borders, state borders are completely permeable. So, unless a large number of other states simultaneously enact comprehensive health care legislation of their own, the new Massachusetts program will confront the same problem.

State efforts to regulate greenhouse gases and support basic scientific research are problematic for a different reason. When a pound of carbon dioxide is emitted into the atmosphere, it quickly disperses around the globe. A state that regulates greenhouse gases thus bears the entire cost of the reduction but receives only a minuscule fraction of the benefit. That fact is bound to limit political support for curbs strong enough to matter. As economists have long emphasized, effective environmental regulation requires

national, or even international, collective action.

It is the same with support for basic scientific research. Residents of Maryland will bear the entire cost of any discoveries from research they finance but will reap only a small fraction of the corresponding benefits. And because of that imbalance, their incentive will be to invest too little.

My point is not that states are foolish for having extended their reach. Again, the federal government has completely dropped the ball in these domains. The recent state actions may not be the most efficient ways of dealing with our most pressing problems. But they are an unmistakable signal of voter impatience with ineffective government at the federal level.

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