DOCUMENT RESUME

ED 152 872 UD 017 935

AUTHOR Nathan, Richard P.; Dommel, Paul R.
TITLE The Cities.
PUB DATE 77
NOTE 35p.; A chapter within "Setting National Priorities, The 1978 Budget", Joseph A. Pechman, Ed., Brookings, Washington, D.C., 1977

EDRS PRICE MF-$0.83 HC-$2.06 Plus Postage.
DESCRIPTORS *City Demography; City Government; City Problems; *Economic Factors; *Federal Aid; *Federal Government; Federal Programs; Financial Policy; Fiscal Capacity; Government Role; Local Government; *Policy Formation; Public Policy; Revenue Sharing; State Federal Aid; *Urban Areas; Welfare Services

ABSTRACT

Over the past two decades, direct payments from the Federal Government to local governments has increased more than sixfold as a percentage of the revenues local governments raise on their own. Both the Ford budget and the Carter budget revisions for 1977 and 1978 contain policy changes with important implications for cities. In this document urban conditions, the problems of cities, and the role of the Federal government in relation to them are examined. The population shift away from the northeast quadrant to the Southern and Western States is discussed as it relates to urban decline. Three factors are used as indicators of city problems: population decline, old age, and economic conditions. Regional differences in the effects of these phenomena are cited. It is stressed that the urban crisis is not nationwide, as many large cities are well off. Structural and demographic differences among cities are shown to complicate Federal efforts to formulate effective urban policy. Various types of Federal aid and the trends evident in funding practices are discussed. Detailed information is provided on the types of local projects funded including community development and housing programs emanating from the Department of Housing and Urban Development (HUD). Means of capital acquisition, revenue sharing, and specific Federal grants to local governments are also described. Strategies for reform and policy alternatives are examined and their feasibility and consequences assessed. (GC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED152872

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Gail Zirkel
Brookings Institution

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC) AND USERS OF THE ERIC SYSTEM."

CHAPTER NINE

The Cities

RICHARD P. NATHAN *and* PAUL R. DOMMEL

OVER THE PAST TWO DECADES, direct payments from the federal government to local governments have increased more than sixfold as a percentage of the revenues local governments raise on their own—from 2 percent in 1955 to 13 percent in 1975—and the upward trend continues. Both the Ford budget and the Carter budget revisions for 1977 and 1978 contain policy changes with important implications for cities. This chapter looks at urban conditions, the problems of cities, and the role of the federal government in relation to them.

Conditions and Problems of Cities

In discussions of core city problems, the question is often asked, revival for whom? What is the role of the inner city? Who will live there? Who will work there? Who will shop there? Often the way these questions are asked and the answers given suggest a stereotype of pervasive decay and hopelessness that reflects conditions in some cities and in some areas of others. However, the picture must not be overdrawn. Urban hardship is a localized infection, confined to certain cities and within these cities to certain areas that have been characterized in recent years by a rapid process of deconcentration. The

The authors gratefully acknowledge the research assistance of James W. Fossett. Helpful comments were provided by Philip M. Dearborn, George E. Peterson, and Robert D. Reischauer.

UD017935

picture many of us carry in our minds of vast, densely populated slum areas is by no means the whole picture.

As suburbs grow and inner-city school problems are compounded, the easy answer that the inner city should be abandoned has become more fashionable. The purpose of this chapter is not to argue for a certain level of resources or type of new program, but to shed light on the nature and complexity of the problems of hardship cities and to suggest the wide variation of policy responses that are possible on the part of the federal government.

An analysis of urban conditions and the problems of cities requires a definition of terms.

Definition of Urban

The Census Bureau defines an "urban place" as a community of 2,500 or more population. Douglas, Wyoming (pop. 2,677), for example, is an urban place. According to this definition, about 70 percent of the population live in urban places, but many of these, like Douglas, do not fit the usual image of urban.

There is also what the Census Bureau calls an "urbanized area," which includes at least one central city of over 25,000 population and the surrounding closely settled territory. About 60 percent of the population live in these areas, which more closely fit our image of what urban means.

Finally, there is the standard metropolitan statistical area (SMSA), which is the most frequently used, but in many ways least accurate, term of reference for urbanization. A metropolitan area includes an "urbanized area," plus, in many cases, some immediately surrounding territory that is more rural than urban. About two-thirds of the population live in metropolitan areas.

Regardless of what definition is used, ours is an urban nation and will remain so, though there are modest signs of change. Between 1970 and 1973, for instance, the metropolitan area population increased by 3 percent; but in the same period the nonmetropolitan population increased by 4.2 percent.

What Is a City?

The term "city" can also be used in ways that cause confusion. To some a city means a very big city, perhaps above 500,000 in population. By this definition there are just twenty-seven cities in the

United States, and they contain 15 percent of the total population. The number of people living in these big cities is growing, but their share of the total population is declining; they constituted 15.6 percent of the population in 1970 and about 18 percent in 1950.

Those concerned about the often undefined or poorly defined "urban crisis" tend to focus on the central cities of SMSAs. Currently there are 375 central cities having 31 percent of the nation's population, their size ranging from under 20,000 to nearly 8 million. Like big cities, central cities collectively have a shrinking share of the national population. However, to focus only on urban problems in central cities overlooks the problem of troubled suburban cities.

A third way of defining a city is to use a population cutoff much lower than the big city level, perhaps 50,000. If this is done, there are 397 cities, including both central and suburban cities. Using this definition, cities also have a declining share of the population—34.8 percent in 1973 compared to 37.2 percent in 1960—despite the fact that the number of cities above 50,000 in population increased in this period.

According to all three of these definitions, cities contain a minority and declining portion of the nation's population. However, the overall picture obscures significant points, as, for example, the fact that major regional population shifts are occurring.

Decline of the Northeast Quadrant

The most evident regional shift is the growing share of the national population contained in the southern and western states, while the "northeast quadrant," composed of the northeast and north central regions, is declining. Up until very recently, the majority of the nation's population lived in these two regions; the northeast quadrant accounted for 53.7 percent of the population in 1960 but declined to 49.6 percent in 1976.

This regional shift has its counterpart in metropolitan area population changes. Although the population of metropolitan areas has been increasing in the aggregate, there have been declines in some of the largest metropolitan areas, particularly in the northeast and north-central regions. During the period 1960–70, only one (Pittsburgh) of the twenty largest SMSAs lost population. However, between 1970 and 1974, the number of losers among this group increased to five (New York, Pittsburgh, Cleveland, St. Louis, and

Seattle), with four of these being in the northeast quadrant. Of the fifteen SMSAs that gained population between 1970 and 1974, the seven in the northeast quadrant had a mean growth rate of 0.85 percent. On the other hand, for the eight metropolitan areas in the South and West that grew in this period, the mean growth rate was 7.2 percent. Essentially the same pattern emerges for cities; population declines tend to be greatest among the older and generally larger cities of the northeast and north central regions.

Other Characteristics of Declining Cities

A decline in population would not be a problem per se unless it was associated with problem conditions for the cities affected. One such condition that is particularly serious for declining cities is their relative old age. Census data are available for all cities on housing built before 1939. For central cities and suburban cities of over 50,000 population in 1973, the proportion of the housing built before 1939 was 29.8 percent for those that gained population and 58.4 percent for the losers. Although comparable census data are not available, knowledge of the cities in which Brookings field research has been conducted indicates that an aging housing stock is associated with the deterioration of related physical facilities—streets, schools, sewer and water facilities, parks.[1]

There is also a relation between population decline and major economic variables, as shown in table 9-1 for the decade 1960–70. Declining cities had a per capita income level $300 lower than growing cities in 1970; housing values were nearly $3,000 lower. It can also be seen that between 1960 and 1970 per capita income increased almost 5 percent faster in the growing cities than in the declining cities, and home values increased nearly 6 percent faster in the growing cities.

Composite Urban Conditions Index

In the foregoing discussion three factors have been used as indicators of city problems—population decline, old age, and economic condition. A report on the block grant program for community de-

1. This field research was conducted as part of a Brookings study of the community development block grant program. See Richard P. Nathan, Paul R. Dommel, Sarah F. Liebschutz, Milton D. Morris, and Associates, "Block Grants for Community Development" (U.S. Department of Housing and Urban Development, 1977: processed).

ERIC

velopment put these three variables together in a composite urban conditions index for 489 central and suburban cities of over 50,000 population.[2] When the mean for this urban conditions index is set at 100, a total of 196 cities, or 40 percent of the 489 cities ranked, have a rating above this level. There are 123 cities (including 11 suburban cities) that have an index rating of 150 or more. These cities, to varying degrees, are considered in this analysis to face urban hardship conditions. Eighty-three (67 percent) of the cities with an index above 150 are in the northeast quadrant. This represents more than a third of the central and suburban cities in the two regions; conversely, only 16 percent of the southern and western cities studied are in this relative hardship group.

In terms of size, the incidence of hardship tends to be greatest among the very largest cities. Whereas 25 percent of all cities are above 150 on this urban conditions index, 45 percent of all cities of above 500,000 population are in this relatively high hardship group. Table 9-2 shows the forty-four cities of above 100,000 population in 1970 that rank above 150 on the index. The twenty-nine cities ranking above 200 can be said to have the strongest combined indicators of relative hardship conditions. The last column of the table shows that the higher-ranked cities tend to have high minority populations.

Something missing here.

pattern whereby the central cities that are most disadvantaged relative to their suburbs are concentrated among older and larger cities in the northeast and north central regions. The marked city-suburban disparities in those two regions are to a large extent a product of city boundaries established in the late nineteenth century, boundaries that at the time reflected the extent of urban settlement but now encompass mainly the poverty-impacted core of the metropolitan area. Conversely, most of the central cities that compared favorably with their adjoining suburban areas in this analysis are newer, spread-out cities located in the South and West.

Several lessons can be drawn from these analyses. It is important to recognize that the United States does not have what can be called a "*national* urban crisis." Many large cities are well off. Moreover, most city dwellers live in suburbs or in relatively small cities. What we face, in short, is a situation in which some—though by no means all—central cities and a few large suburban cities are experiencing what can be called "urban crisis *conditions*."

The Diversity of American Federalism

One of the major difficulties in formulating federal policy to deal with these conditions is the complexity of the structural arrangements

something missing here

roughly equal severity. Chicago has an index rating of 201; New York's is 180. Their response to these problems, however, has been quite different. Table 9-3 presents comparative per capita data for several major financial items for the two cities in fiscal year 1975. New York City received and spent almost five times as much per capita as Chicago.

Closer examination, however, reveals that much of this disparity is due to differences in the structural arrangements for the provision of services rather than to differences in the relative size of the public sector. The data displayed in table 9-4 make this point, correcting for these structural differences by including the expenditures of other local governments providing services to Chicago residents in the functional categories where financial disparities are pronounced.

New York City was one of only three units of local government operating within the city boundaries in 1972, and the only unit with property taxing authority. By contrast, there were 500 units of local government in Cook County (which overlies Chicago), 475 of which had the authority to collect property taxes. To contrast the structural differences further, the Illinois state government was more active in the direct provision of services during this same period, spending $15 more per capita than New York State.

Structural differences are particularly important in the two categories where the expenditure disparity is largest, education and welfare. The New York City school system and university system are both city agencies funded with city revenue. In Chicago, by contrast, both the city school system and institutions of public higher education are independent of the city government. As table 9-4 shows, the Chicago city school district spent almost as much per capita for local schools as New York. While local expenditures on higher education were substantially lower in Chicago, it should be noted that the state maintains a major branch of its university system in Chicago, while the New York State university system does not operate a major campus in New York City.

Comparisons of welfare spending are more complex. New York City is a county for purposes of administering the federally aided public assistance programs, making it subject to the New York State requirement that counties pay half the total state-local share under these programs, whereas the state of Illinois pays the full amount of the state-local share under federally aided welfare programs.

Table 9-2. Characteristics of Forty-four Cities with Population above 100,000 and More than 50 Percent above the Mean on the Urban Conditions Index, Various Dates, 1960–70

City	Urban conditions index[a]	Population, 1970	Population change (percent) 1960–70	Population change (percent) 1970–73	Percent pre-1939 housing, 1970	Poverty population, 1970 (percent)	Nonwhite and Spanish population, 1970 (percent)
St. Louis, Mo.	351	622,236	−17.0	−10.9	73.9	19.7	42.3
Providence, R.I.	333	179,116	−13.7	−5.1	80.7	17.8	10.8
Camden, N.J.	333	102,551	−12.5	−2.5	70.0	20.8	46.4
Newark, N.J.	321	381,930	−5.7	−4.6	68.4	22.1	62.2
Buffalo, N.Y.	292	462,768	−13.1	−8.1	85.7	14.8	21.9
Cleveland, Ohio	291	750,879	−14.3	−9.7	73.3	17.0	40.9
Trenton, N.J.	288	104,786	−8.2	0.0	81.0	16.3	40.7
New Orleans, La.	274	593,471	−5.4	−2.6	49.4	26.2	49.8
Pittsburgh, Pa.	260	520,117	−13.9	−8.1	74.4	15.0	20.8
Savannah, Ga.	260	118,349	−20.7	−10.9	39.9	25.8	46.6
Chattanooga, Tenn.	257	119,082	−7.8	41.0[b]	48.3	24.5	36.0
Boston, Mass.	257	641,071	−8.1	0.0	77.2	15.3	20.8
New Haven, Conn.	252	137,707	−9.4	−4.5	69.2	16.5	30.7
New Bedford, Mass.	246	102,477	−0.7	−0.7	80.8	15.1	4.8
Paterson, N.J.	228	144,824	0.8	−1.3	70.5	16.3	35.7
Cincinnati, Ohio	226	452,524	−10.2	−5.6	59.3	17.1	28.7
Jersey City, N.J.	226	260,545	−5.7	−3.2	78.9	13.5	28.2
Baltimore, Md.	224	905,787	−3.5	−3.1	60.0	18.0	47.9
Hartford, Conn.	223	158,017	−2.6	−5.9	67.0	16.2	36.6
Albany, N.Y.	221	115,781	−10.7	−3.4	74.7	13.2	12.5

Youngstown, Ohio	220	140,909	−15.5	−5.0	67.4	13.8	28.3
Cambridge, Mass.	219	100,361	−6.8	−1.8	79.7	12.8	10.5
Birmingham, Ala.	218	300,910	−11.7	−2.7	42.7	22.5	42.6
Philadelphia, Pa.	216	1,950,098	−2.6	−4.2	69.5	15.1	35.6
Scranton, Pa.	213	102,696	−7.1	−3.3	86.6	11.4	1.0
Syracuse, N.Y.	210	197,297	−8.7	−6.4	70.8	13.5	12.2
Rochester, N.Y.	205	296,233	−7.0	−6.5	79.5	12.0	19.2
Chicago, Ill.	201	3,369,357	−5.1	−5.2	66.5	14.3	41.5
Detroit, Mich.	201	1,513,601	−9.4	−8.0	61.8	14.7	46.2
Berkeley, Calif.	197	116,716	4.9	−3.4	57.1	18.1	37.0
Louisville, Ky.	195	361,958	−7.4	−7.1	53.2	17.0	24.4
San Francisco, Calif.	188	715,674	−3.3	−4.0	66.9	13.6	42.6
New York, N.Y.	180	7,895,563	1.5	−2.9	62.1	14.7	33.3
Duluth, Minn.	176	100,578	−5.9	−2.9	72.6	11.4	1.5
Oakland, Cal.	176	361,561	−1.6	−3.4	53.3	16.2	50.6
Minneapolis, Minn.	174	434,400	−10.0	−12.2	68.1	11.5	7.2
Springfield, Mass.	170	163,905	−6.1	3.2	64.4	12.4	16.1
Canton, Ohio	167	110,053	−3.1	−3.2	66.2	12.2	14.2
Erie, Pa.	158	129,231	−6.7	0.3	66.8	11.0	6.8
Worcester, Mass.	156	176,572	−5.4	−1.3	74.4	9.9	3.3
Washington, D.C.	155	756,510	−1.0	−3.0	47.0	16.3	74.3
Salt Lake City, Utah	155	175,885	−7.2	−1.1	52.1	13.8	9.6
Spokane, Wash.	154	170,516	−6.1	+1.6	53.6	13.5	3.8
Dayton, Ohio	154	243,601	−7.4	−12.3	52.1	13.7	31.7

Sources: Same as table 9-1, and U.S. Office of Revenue Sharing, *General Revenue Sharing: Final Data Elements, Entitlement Period 6* (Government Printing Office, 1976).
a. For definition of urban conditions index, see note 2 above.
b. Chattanooga's population gain was due in large part to a series of annexations in 1971–73.

ERIC Full Text Provided by ERIC

Table 9-3. Per Capita Amounts of Selected Revenue and Expenditure Items, New York City and Chicago, 1974–75
Dollars

Item	New York City	Chicago
General revenues	1,677.57	340.63
Property taxes	349.00	98.53
Intergovernmental revenue	884.51	106.80
General expenditures	1,522.37	310.20
Education	356.53	11.85
Highways	26.71	30.36
Public welfare	377.63	5.84
Health and hospitals	212.01	14.99
Police protection	91.58	77.41
Fire protection	38.86	25.65
Sewerage	46.81	8.09
Other sanitation	36.55	20.66
Parks and recreation	19.80	3.14
Housing and renewal	81.95	3.82
Total Debt	1,934.64	411.12
Long-term, full-faith, and credit	1,044.72	96.26
Other	889.92	314.86

Source: U.S. Bureau of the Census, *City Government Finances in 1974–75*, GF75, no. 4 (GPO, 1976), table 6.

The city government of Chicago accounted for less than 10 percent of total spending by local governments for services to its citizens in the seven functional areas included in table 9-4, while the city of New York accounted for nearly all such spending. That cities vary widely in the way in which they organize and finance the provision of services is not a new observation. However, it is in this context that the role of the federal government and its budget in aiding cities must be considered.

The Federal Role in Aiding Cities

Although there are no programs in the federal budget that provide funds only to cities, there are many that aid cities along with other types of local governments, particularly counties and townships. In recent years the amount and number of federal grant programs that aid localities has increased markedly. Between 1952 and 1972, there was, in fact, a doubling in the localities' share of total direct federal payments to state and local governments, as shown in table 9-5. Most of the increase over this period is accounted for by growth in grant

Table 9-4. Per Capita Expenditures, Chicago and New York City, and of Local Units Furnishing Services to City of Chicago, by Function, 1974–75

Dollars

		Chicago area		
Function	*Local unit furnishing services to Chicago*	*Local unit*	*City of Chicago and local unit*	*New York City*
Local schools	Chicago City School System	321.92	333.77	[illegible]6.53
Higher education	City Colleges of Chicago	13.39[a]	13.39	63.33
Parks and recreation	Chicago Park District	31.12	34.26	19.80
Sewerage	Metropolitan Sanitation District	29.88	37.97	46.81
Health and hospitals	Cook County Health Department	24.69	39.69	212.01
Housing and renewal	Chicago Housing Authority	29.25	3[illegible].07	81.95
Welfare	Cook County Welfare Department	1.09	6.93	377.63

Sources: U.S. Bureau of the Census, *City Government Finances in 1974–75*; idem, *Local Government Finances in Selected Metropolitan Areas and Large Counties, 1974–75*, GF–75 no. 6 (GPO, 1976), and idem, *Census of Governments, 1972*, vol. 4, *Government Finances*, no. 1: *Finances of School Districts* (GPO, 1974), table 9.

a. 1971–72 expenditures.

ERIC Full Text Provided by ERIC

Table 9-5. Federal Payments to State and Local Governments and Share to Local Governments, Selected Fiscal Years 1952–75

Fiscal year	Federal payments to state and local governments (millions of dollars)	Percentage of federal payments to local governments
1952	2,585	9.1
1956	3,347	9.6
1960	6,994	9.2
1964	10,097	11.7
1968	18,053	12.6
1972	33,584	18.2
1974	42,854	28.3
1975	49,628	28.6

Sources: U.S. Bureau of the Census, *Governmental Finances*, selected years, and idem, *Summary of Governmental Finances*, selected years.

programs for education, the environment, and community development. Even more striking is the fact that from 1972 to 1974 the proportion of federal payments received by local units rose by another 50 percent, accounted for primarily by the enactment of the general revenue sharing program.

Two main types of federal grants to localities can be distinguished. Formula grants are distributed according to an automatic allocation system specified in law or regulation; project grants are provided on the basis of individually approved projects meeting the appropriate federal requirements.

Until the advent of general revenue sharing in 1972, almost all formula grants provided by the federal government were made to state governments for fairly narrowly defined purposes. However, the trend in recent years, which was a major theme of the New Federalism of the Nixon administration, has been toward broader-purpose formula grants, with a substantial proportion of these grants going to local governments. Two-thirds of all general revenue sharing payments are made to local units; all block grants for community development and 70 percent of those for the manpower block grant program are paid directly by the federal government to localities.

These new and broader grants were adopted in large measure as instruments of political decentralization, as a means of increasing the discretion of the recipient units, and to reduce the influence of federal officials on state and local policymaking.

There is considerable significance in this dual shift toward greater reliance on formula grants and the direct allocation of federal grants to local units. In terms of their political effect, the increased reliance on direct grants to localities represents an important modification of the original concept of American federalism. Traditionally, local governments in the United States have been regarded as "creatures" of the states, and thus not on the same legal footing as the states for purposes of their relationships with the federal government.

The Spreading Effect

The shift from project grants to formula grants and the increase in the amount of funds provided under formula grants to localities can also be seen to have had a spreading effect. Whereas project grants could be targeted on a few units or disproportionately paid to certain units, formula grants treat all localities the same with respect to the economic and social characteristics specified in the distribution formula. This, of course, has been one of their selling points—that they are evenhanded and that as a result funding can be anticipated in advance. This spreading effect has significance in relation to urban hardship conditions. It has tended to benefit suburban governments and small cities that previously were not aided, or not aided appreciably, under federal grants. The resulting reduction in the relative proportion of federal grants made to other cities—particularly large cities—may be said to be good where these cities do not face hardship conditions and yet received relatively high levels of federal aid. Furthermore, the inclusion of suburban governments (by no means a homogeneous group) can be argued to be desirable as a means of aiding poor suburbs and of stimulating richer suburban governments to deal with social needs—for example, by providing training, jobs, housing opportunities, and public facilities for minorities and lower-income groups.

But this relative decrease of funds to the larger cities can also be criticized, especially in the case of larger cities facing urban hardship conditions. In 1968, 62.2 percent of all federal grants for cities went to cities of over 500,000 population; the corresponding figure for 1975 was 44.3 percent. On the other hand, the shares for cities of under 500,000 population rose. Cities of 100,000–499,999 population received 17.5 percent of all federal grants to cities in 1968 and 22.9 percent in 1975; the share for cities under 100,000 rose even more, from 20.3 percent in 1968 to 32.8 percent in 1975.

Table 9-6. Grants to Local Governments under Ford and Carter Budgets,[a] by Major Federal Programs, Fiscal Year 1977
Millions of dollars

Program	Ford budget outlays	Carter budget outlays	Increase
Revenue sharing[b]			
General revenue sharing	4,540	4,540	0
Countercyclical revenue sharing	838	1,458	625
Block grants			
Community development	2,250	2,250	0
Comprehensive Employment and Training Act, Title I[c]	1,015	1,015	0
Other[d]			
Wastewater treatment construction	4,430	4,430	0
Emergency public works	791	987	196
CETA, Titles II and VI (public service jobs)	1,931	2,431	500
Urban Mass Transportation Administration grants	1,773	1,773	0
Spend-down of programs folded into community development block grants	1,169	1,169	0
Other job training and employment assistance	1,075	1,403	328
Federally impacted schools aid	791	791	0
Community Services Administration funding	494	494	0
Airport development assistance	308	308	0
Emergency school assistance	269	269	0
Economic development assistance	188	188	0
Rural water and waste disposal grants	163	163	0

Sources: *Special Analyses, Budget of the United States Government, Fiscal Year 1978*; Office of Management and Budget, *Fiscal Year 1978 Budget Revisions, February 1977* (GPO, 1977); idem, Budget Review Division, "Grants-in-Aid in the Revised 1978 Budget" (OMB, 1977; processed). The CETA figures are estimated from U.S. Department of Labor, "News," USDL 76-1346, 76-1426, 76-1499, October 22, 1976, November 22, 1976, and December 17, 1976, respectively.

a. Excluding grants estimated at under $100 million.

b. Two-thirds of estimated total outlays; there are some exceptions to the two-third rule in states affected by special limitation provisions in the law.

c. Estimate excludes consortium incentives.

d. Some of these programs make small grants of undetermined amounts to state governments. Except for CETA, figures are for total outlays.

The Array of Federal Grants for Localities

Although there is a tendency to view federal grants in terms of their proliferation and duplication, local-aid funds are concentrated in a few programs and functional areas. Table 9-6 shows all federal grants under which at least $100 million is estimated to be provided to local governments for fiscal year 1977, under both the Ford and Carter budgets. The table includes sixteen major programs and program areas, which account for an estimated 90 percent of all direct federal

ERIC

Table 9-7. Ford and Carter Budget Authority and Outlays for Major Local-Aid Programs, Fiscal Year 1978
Millions of dollars

Program	Ford budget	Carter budget	Change
Countercyclical grants			
Local public works			
Budget authority	3	2,000	1,997
Outlays	803	2,800	1,997
Public service employment			
Budget authority	400	5,871	5,471
Outlays	1,400	5,888	4,488
Revenue sharing			
Budget authority	0	1,550	1,550
Outlays	0	1,550	1,550
Other grants			
Sewage treatment construction			
Budget authority	4,500	4,500	0
Outlays	5,160	5,160	0
Urban mass transit[a]			
Budget authority	492	492	0
Outlays	2,059	2,159	50
Community development			
Budget authority	4,554	5,311	−757
Outlays	5,112	5,195	83
Local public works and development			
Budget authority	1,619	1,742	123
Outlays	1,535	1,535	19
Employment and training			
Budget authority	2,838	4,256	1,418
Outlays	2,912	4,747	1,835

Source: Office of Management and Budget, *Fiscal Year 1978 Budget Revisions*.
a. Grants by Urban Mass Transportation Administration only.

aid to localities.[4] Overall, the Carter administration has proposed increases in outlays to state and local governments of $2 billion in 1977 and $10 billion in 1978. A more comprehensive comparison of the Carter and Ford budgets for local aid in 1978 is presented in table 9-7, which shows both authority and outlay figures. To summarize the main points brought out by the two tables, it can be said that the Carter revisions for 1977 and 1978 make some changes, but not many, in spending for local assistance; these increases are very large

4. Federal programs such as income support grants and the Law Enforcement Assistance Administration's block grant, which "pass through" aid to local governments by an initial allocation to the states, are excluded from this table.

but tend to be limited to those required to implement the administration's economic stimulus package.

How do major federal aid programs for localities relate to the urban hardship conditions discussed earlier? Distributional issues are of immense importance in this context. Unless the amount of funds available for federal programs to aid localities were significantly increased, changes in allocation systems to place greater emphasis on relieving urban hardship conditions would require reductions in the amount of funds available for other cities, typically smaller and suburban cities with higher income levels and better economic prospects. Yet these communities, like all local governments, are hard hit by inflation.[5] They are as a result increasingly sensitive to ways in which federal funds can ease their fiscal pressures. Moreover, they have demography on their side. Growth of the suburbs and their representation in the House of Representatives has resulted in stepped-up, and increasingly successful, demands on the part of these governments to obtain federal grants. Meanwhile, central cities facing hardship conditions, which have been losing population, tend to be concentrated in the northeast and north central regions, which lost eight seats in the House under the reapportionment based on the 1970 census.

Several ameliorating factors offset these negative ones. Since not all cities with hardship conditions are central cities (some are older suburbs), since not all are located in the northeast quadrant, and since many wealthier suburban communities depend upon central cities for jobs and cultural amenities, there is a possible base for political support for federal policies focused on urban hardship conditions that goes beyond the boundaries of the old central cities. Furthermore, to the extent that older and declining cities have disproportionately high levels of unemployment, poverty, and deteriorated housing, federal programs designed to deal with such conditions can, or at least should, be expected to focus assistance on these cities.

Major HUD Programs

The federal agency that relates most closely to cities is the Department of Housing and Urban Development; its two largest activities

5. David Greytak and Bernard Jump, "The Effects of Inflation on State and Local Government Finances, 1967–1974," Occasional paper 25 (Syracuse University, Maxwell School of Citizenship and Public Affairs, 1975).

to aid cities are community development and housing. The Ford administration's budget for 1978 recommended increases in both areas; the Carter administration, in turn, transmitted budget revisions that would make further outlay increases.

COMMUNITY DEVELOPMENT. In 1974 a new law was passed to consolidate seven previously established federal grant programs for community development into a single block grant to be distributed by HUD, in part under a new formula allocation system and in part on a discretionary basis. The seven "folded-in" grants subsumed under the new program are urban renewal, model cities, water and sewer facilities, open spaces, neighborhood facilities, rehabilitation loans, and public facility loans. Some 2,500 local governments received such block grants for community development in 1975.

President Ford's budget for fiscal 1978 proposed two important changes in this program. It urged raising the authority level by $252 million to $3.5 billion, and also recommended a revised formula for allocating these funds to give more aid to hardship cities. The new formula, similar to that proposed in the recent Brookings report for HUD on this program, is a "dual formula," retaining the existing three-factor formula and at the same time introducing a new second formula.[6] Under the dual-formula approach, eligible jurisdictions receive aid under whichever formula (the original formula or the new one) entitles them to the higher amount of funds.

The original formula contained in the Housing and Community Development Act of 1974 is based on population, overcrowded housing, and poverty (double weighted). Under this formula, when fully implemented, the share of all central cities would decline from 71.8 percent under the folded-in programs to 42.2 percent in the sixth year of the block grant program. The northeast quadrant's share would decline similarly, New England's share falling from 9.9 percent to 4.7 percent and that for the Middle Atlantic States from 22.7 percent to 17.4 percent. The Ford administration's proposed new alternative formula, for example, uses population decline, the proportion of population living in poverty, and the number of pre-1939 housing units as formula factors (pre-1939 housing reflects physical need, a dimension of urban need not included in the original formula). The net effect is to increase the funds going to older and declining cities, and to the northeast quadrant generally.

6. See Nathan and others, *Block Grants for Community Development*, chaps. 5 and 6.

ERIC

The Carter administration also proposed revisions in this program. It recommended a supplementary block grant fund of $400 million in the form of discretionary "action grants" for major projects in needy cities. Also proposed was a dual formula for the basic allocation system, with the new formula consisting of poverty, pre-1939 housing, and "growth-lag," defined as the difference between the population growth (or decline) of each eligible city and the national average growth rate for all entitlement cities. Like the Ford administration's dual formula, this proposal has a significantly stronger urban focus than the allocation system in the current law.

HOUSING. Widespread concern about the slow recovery of the housing industry from the 1974–75 recession resulted in pressure on the federal government in 1976 to expand the level of its housing programs. From 1971 through 1973, housing starts for the nation exceeded 2 million annually; in 1974 they were 1.34 million and in 1975, 1.16 million. The Ford budget submitted in January 1977 proposed 400,000 assisted housing units for fiscal year 1978, an increase of 165,000 units over 1977. Most of these subsidies were proposed to be provided through section 8 of the United States Housing Act as amended, a housing assistance program under which a payment is made for the difference between the fair market rent of dwellings occupied by eligible families and 25 percent of their income. Unlike the other programs considered in this chapter, section 8 funds are paid to both private developers and local governments. Assistance is available for new housing, rehabilitated housing, and existing housing.

The inclusion of existing housing, which in 1977 accounted for 38 percent of all section 8 approvals, raises important policy issues. For one thing, it means that a considerable portion (possibly as much as half) of the 165,000 new section 8 units proposed in the 1978 Ford budget would not be for new construction. The inclusion of so many existing units undermines the stimulation of new construction as one of the purposes of housing assistance programs.

The second domestic policy issue raised by the inclusion of so many existing units under the section 8 program relates not to housing policy but to income-security policy. Because section 8 funding is limited, many families with the same or lower income levels than families in existing housing units that happen to be subsidized do not receive this form of income assistance. As contrasted to subsidies for new housing units, the problem of horizontal inequity created here cannot be offset by the fact that new housing construction is being stimulated. The justification of subsidies for occupants of existing housing units rests much more heavily on an income-security rationale. Proposals for welfare reform—including a universal housing allowance available to all poor families—have been advanced in part as a means of reducing the unfairness of current housing assistance programs.

Federal housing programs are related to still another area of domestic policy, civil rights. The Housing and Community Development Act of 1974 requires that, as a condition of receiving block grant funds for community development, recipient jurisdictions develop a "housing assistance plan" indicating their housing needs (including units for persons expected to reside in the community) and how they propose to meet these needs. Experience to date under the block grant program indicates only minimal efforts to develop and implement housing assistance plans.[7] Here again, the question of distribution is raised. Should federal housing subsidies be concentrated in the inner city or spread out in the metropolitan areas in order to achieve spatial deconcentration of income groups, an objective of the block grant program?

President Carter's budget proposals call for 400,000 assisted housing units both in 1977 and 1978, and a change in the mix to give more emphasis to conventional public housing and section 8 subsidies for existing housing units for lower-income families. Nearly $9 billion in increased budget authority and $124 million in increased outlays are requested for 1978.

Meeting Capital Needs

The federal government provides grants under a number of programs for certain kinds of construction projects undertaken by local governments, and also assists them in borrowing for routine capital purposes. In recent years the trend in federal grants for capital purposes has been away from large-scale construction and toward smaller projects. Critics of this trend toward shorter-term and more dispersed urban development activities have recommended that federal policy be changed to assist large-scale construction projects.

7. Ibid., pp. 64–67, 393–97.

ERIC

Some have suggested changing the block grant program for community development by grafting onto it a new section resembling the conventional urban renewal program. (The Carter administration's proposal of supplementary "action grants" moves in this direction.) Others have proposed an urban development bank to assist local governments in financing public and private economic and community development projects. Still another approach involves federal tax credits for investments in areas of urban distress.

Traditionally, local governments have relied on the private market to raise funds for capital purposes of a more routine nature, with the interest received by lenders being exempt from federal taxation. Most cities—New York is the major exception—have avoided relying extensively on borrowing for operating purposes. As opposed to the recommendations to provide assistance for relatively large-scale capital development projects, a number of related types of federal aid have been recommended to help cities meet their regular capital needs. Some have urged that temporary assistance, such as that provided under the New York Seasonal Financing Act, be offered to a wider range of cities. Another approach is that in addition to the tax exemption, the federal government guarantee state and local bonds, with the guarantee available to units facing especially serious fiscal pressures and willing to subscribe to the conditions under which the guarantee would be made available.

A more widely favored approach is for the federal government to give local governments a taxable bond option. Under this approach, states and localities would have the option of using a taxable debt instrument on which the federal government would pay part of the interest cost (somewhere between 30 and 50 percent) in exchange for eliminating the federal tax exemption. Major arguments in favor of the taxable bond option are that it would encourage institutional investors otherwise not attracted by the federal tax exemption to enter this market, and at the same time enable the federal government to subsidize state and local borrowing on a more efficient basis. This is a proposal of long standing; both the Ford and Carter administrations have recommended this approach, and support for it appears to be growing.

Revenue Sharing

The general revenue sharing program enacted in 1972 for five years was extended for three and three-quarters years in 1976. The new law distributes $6.85 billion per year to some 39,000 general-purpose units of state and local government; two-thirds of these funds are paid to local governments.[8]

A second form of revenue sharing—countercyclical revenue sharing, also enacted in 1976—is proposed to be extended to 1982 as part of President Carter's economic stimulus program. This program, triggered at 6 percent unemployment nationally, distributes funds according to the general revenue sharing formula, adjusted by the level of unemployment locally.

The revenue sharing program provides another good illustration of the way in which formulas under federal grants affect older and declining central cities. Despite an overall advantage of approximately two to one for central cities as compared to suburban units under revenue sharing, there is agreement among analysts of the program that some large central cities with particularly serious hardship conditions are discriminated against under the current formula. Specifically, a 145 percent ceiling on local allocations contained in the act (no local unit can receive more than 145 percent of the average per capita payment to localities in its state) discriminates against central cities like St. Louis, Philadelphia, and Baltimore, which do not have an overlying county government. If the *combined* allocations of shared revenue for a central city and its overlying county government exceed 145 percent, but both the city and county shares are below this level, the ceiling does not apply. It only applies to individual units; coterminous city-counties (as in the three cases above) are therefore the jurisdictions most likely to be affected. Ironically, the tradition of local government in the northeast quadrant is such that it is precisely the oldest, most disadvantaged municipal governments that are likely to feel the pinch of this requirement. In 1975, the Ford administration proposed raising the 145 percent ceiling to 175 percent, but the renewal law passed in 1976 did not do so.

Beyond the problem of the ceiling are more fundamental questions of whether the formula for distributing both general and countercyclical revenue sharing funds should give greater emphasis to urban hardship. This could be done by adding formula factors such as density, age of housing, and rate of population change (inverse) that tend to favor hardship cities. In addition to changing the basic for-

8. For a history and description of the new law, see Richard P. Nathan and Charles E. Adams, Jr., and Associates, *Revenue Sharing: The Second Round* (Brookings Institution, 1977).

mula, other possibilities, not considered in 1972 or 1976, include introducing a new dual-formula approach (as proposed for the community development block grant) or an automatic supplement limited to jurisdictions that exceed specified threshold levels on indicators of economic and social need.

The Ninety-sixth Congress, which convenes in 1979, will again need to consider general revenue sharing legislation. President Carter has consistently recommended eliminating state governments from eligibility on the grounds that their needs are less acute than those of most local governments, although he did not propose that this be done in 1977 in the extension of the countercyclical revenue sharing program. There are both substantive and tactical reasons for keeping the states in the revenue sharing picture, given their central role in determining the boundaries, functions, and finances of local units. However, should state governments be eliminated from the program, opportunities would be opened for distributing the freed-up funds on a basis that gives greater attention to the urban hardship conditions of local governmental units.

Other Federal Grants to Localities

Of the programs listed in table 9-6, eight have not yet been discussed. The urban or hardship focus of four of these programs is examined in this section.

EMPLOYMENT AND TRAINING BLOCK GRANT. Title I of the Comprehensive Employment and Training Act (CETA) allocates funds to state and local governments acting as prime sponsors for a variety of employment and training activities previously operated as project grants. Cities and counties of over 100,000 population are eligible to act as prime sponsors, along with consortia of local governments. All prime sponsors, including state governments, are required to submit plans for the expenditure of Title I funds, which must be approved before programs can be funded.

Again, the composition of the formula is of key importance for the cities. Eighty percent of the funds provided under CETA-Title I are allocated among prime sponsors according to three factors: half on the basis of each prime sponsor's share of the previous year's funding, 37.5 percent based on each sponsor's share of total national unemployment, and the remainder based on the number of adults below an agency-defined poverty line. No unit may receive less than 90 per-

ERIC

cent of its previous year's funding or more than 150 percent. The floor provision is especially important for cities.

Under this formula a number of larger and older cities have been losing funds. Overall, the prime sponsor cities' share of CETA–Title I funds declined from 25 percent under the programs consolidated into this title to 22 percent in 1976. In 1976, two-thirds of the cities required special payments to bring them up to the 90 percent floor. County governments (including many that are highly urban) have been beneficiaries under CETA; their share of funds increased from 13.5 percent before CETA to 16.3 percent under the formula in 1976. The major source of these shifts in funding has been the formula's reliance on the number of unemployed, rather than on the concentration on the disadvantaged under the earlier programs. The relatively high poverty line used by the Department of Labor also tends to reduce the advantage of the older cities. The CETA authority expires in September 1977; the Carter administration has requested a simple one-year extension.[9]

MASS TRANSPORTATION. There are three major sources of federal funding for urban public transportation. Two are programs operated by the Urban Mass Transit Administration (UMTA); the third consists of diversions from the highway trust fund. The cumulative federal share of projects funded under these three programs was $7.1 billion as of October 1976.

The two programs administered by UMTA are currently operating under $11.8 billion of authority enacted for the six-year period 1974–80. Estimated outlays under the two programs in 1977 are $1.8 billion. Approximately $7 billion, or about two-thirds of the total UMTA grant authority, is budgeted for project-type grants, where the federal government pays up to 80 percent of the net cost of capital acquisitions (rights-of-way and rolling stock). Nearly one-third of these project grants have been made for bus purchases; the remaining 70 percent has been split almost equally between construction of new rail systems and the expansion of existing systems.[10] The funding distribution of these project grants shows a high concentration in a relatively small number of cities. Three-fourths of these

9. Formula information and distributional data for this section was provided by the National Academy of Sciences monitoring project on the CETA program.

10. Congressional Budget Office, *Budget Options for Fiscal Year 1978* (GPO, 1977), chap. 7.

funds were obligated for eight cities as of September 1976, largely for rail systems. Thirty-two urbanized areas received 91.6 percent of these capital grant commitments. Of these thirty-two areas, the central cities of fifteen scored above 150 on the urban conditions index, approximately the same proportion as that of all cities above 500,000 population. Within this group, however, there is little relationship between relative hardship ratings and the level of funding received. Baltimore, Boston, Philadelphia, and Pittsburgh (all above 150 on the index) received substantial shares of the reservations allocated for these project grants, while Buffalo, Cleveland, and St. Louis (the three highest-ranked cities in table 9-2 that received project funding) received relatively small amounts of funding.

The federal government also provides formula grants for public transportation (about $4 billion in authority, with current projects of approximately $600 million a year) to some 248 urbanized areas. The formula allocates one-half of the available funds on the basis of population and one-half on the basis of population weighted by density. Grants are made to one public body in each area; the state acts as recipient for areas under 200,000 population. The Congressional Budget Office estimates that over 90 percent of these funds have been used for operating subsidies and that these funds are equal to about 20 to 25 percent of the deficits of existing public transit systems.

To summarize, federal support of mass transit operations has been heavily focused on capital support in a relatively small number of cities; operating subsidies have been spread more widely. However, the effectiveness of these funds in relieving urban hardship is difficult to gauge because the ultimate benefits may go disproportionately to higher-income suburban areas and residents.

PUBLIC SERVICE EMPLOYMENT. Grants to local governments for public service employment under Titles II and VI of CETA represent two-thirds of federal outlays for public service employment in fiscal 1977. (The remaining one-third is paid to state governments.) Total federal outlays for public sector jobs have expanded dramatically in the past three years—from $400 million in fiscal 1974 to $2.7 billion in fiscal 1977—as economic conditions have worsened. Under Title II, as initially enacted, funding for public sector employment was to be concentrated in areas of high unemployment; positions were reserved for the disadvantaged and long-term unemployed. Under Title VI, more emphasis was placed on countercyclical goals. Countercyclical considerations were given further prominence in 1976 by the passage of the Emergency Jobs Program Extension Act.

The last two Ford administration budgets recommended phasing out Title VI. The Carter administration's economic stimulus package, however, recommends an additional $940 million in authority and $700 million in outlays for Titles II and VI for the remainder of fiscal 1977 and further increases in funding in 1978.

The effectiveness of these programs in providing funds to urban hardship areas has been reduced by worsening economic conditions and the use of these titles to further countercyclical goals. This situation has been particularly marked with respect to Title II. Under the initial legislation, prime sponsors were eligible for funding if their area had an unemployment rate of 6.5 percent or more, and funds were allocated on the basis of the prime sponsor's share of the total number of unemployed. However, increased unemployment has made almost all prime sponsors eligible under this program, requiring that funds be spread among a large number of recipients and thus lessening its impact for hardship cities.

Title VI funding is more responsive to variations in the severity of unemployment. Half the funds are distributed according to the sponsor's share of total unemployment; one-quarter according to the share of unemployment in excess of 4.5 percent; and one-quarter according to the share of unemployed in subareas with unemployment greater than 6.5 percent. One recent evaluation of Titles II and VI concludes that CETA public service employment programs have been successful "to a modest extent" in concentrating programs in SMSAs with substantial unemployment, but less successful in channeling funds to areas that have experienced major declines in employment as a result of the recent recession.[11]

EMERGENCY PUBLIC WORKS. The emergency public works program enacted in 1976 has been the subject of considerable controversy. The allocation of funds was based on a list of factors in the legislation to be defined by the administering agency, in this case the Economic Development Administration (EDA). One feature of the law that was especially important was the two-pot allocation system.

11. Michael Wiseman, "Public Employment as Fiscal Policy," *Brookings Papers on Economic Activity, 1:1976*, pp. 67–104.

ERIC

The agency was required by law to allocate 70 percent of the available funds to jurisdictions with unemployment rates above the national average and 30 percent to jurisdictions below the national average but above 6.5 percent. EDA initially anticipated that this 70–30 division could be made on the national level, since it did not expect a large volume of applications for the 70 percent portion. Contrary to expectations, however, enough applications for the 70 percent pot were received to exhaust total allocations in every state, while a relatively small number of applications was received for the 30 percent funds.

As a result, EDA decided to make the 70–30 split on a *state*, rather than a national, basis. Once applications were scored, applications for the 70 percent pot competed against each other at the state level. As a result of the large number of applications, this competition was intense; many jurisdictions with substantial unemployment rates received no funds at all, while applicants for the 30 percent pot, where competition was much less intense, received relatively large grants in spite of their low unemployment rate. In New Jersey, for example, the unemployment cutoff for funding from the 70 percent pot was 11.37 percent. No applicants with unemployment rates between the national average and this figure received any funding, while applicants with rates between 6.5 percent and the national average received funding from the 30 percent pot.[12]

While full data are lacking, it would appear that two groups of beneficiaries emerged as a result of the operation of the allocation process for emergency public works funding in 1976. Most very large and high-hardship cities tended to do reasonably well under the scoring procedure for applications, since they were likely to have both a large number of unemployed persons and a high unemployment rate. Smaller governments, on the other hand, appear to have benefited from the 30 percent pot and their ability, through another controversial ruling, to claim areas outside their borders as part of their project areas. Under this ruling, prosperous suburban communities were able to claim the unemployment rate of contiguous central cities

12. EDA also decided to adopt a system of "benchmarks" to prevent funds from being concentrated in a small number of units. Under this procedure, which also has a spreading effect, no unit could receive a higher share of state emergency public works funds than its share of state or county unemployment. Regardless of a project's score relative to projects requested by other units, it was not funded if the unit's benchmark allocation had been exceeded.

on their applications. Middle-sized cities and those experiencing moderate hardship appear to have been disadvantaged by the procedures for calculating both the number of unemployed and the rate of unemployment.

The Congress has recently made a number of modifications in the procedure for allocating public works funding that help to rectify the problems discussed here and increase the amount of support going to urban hardship areas. New legislation eliminates the 30 percent pot and requires modifications in the procedures used for scoring applications that discriminated against many large cities.

Welfare Reform and the Cities

Welfare reform, however defined, is an important issue for cities. It is especially important for central cities. The poverty rate for central cities (14.4 percent) was twice that of suburbs in 1974. Moreover, the incidence of welfare benefits is generally higher in the older and declining cities of the northeast and north central regions. This does not mean that the budgets of these central cities are directly burdened; welfare is more likely, even in these regions, to be a state or county responsibility. A basic choice in framing the urban policies of the federal government is that between providing financial assistance to jurisdictions and pursuing an "income strategy" concentrating on aid to individuals in the form of income transfers (both cash and in-kind). There are three dimensions of welfare reform that bear on the issue of relieving urban hardship: benefit levels, coverage, and fiscal relief.

BENEFIT LEVELS. Since welfare benefit levels in the northeast and, to a lesser extent, the north central region tend to be relatively high, any provisions in a welfare plan to establish a minimum benefit level would have little effect on many persons in these regions who are already receiving assistance. Setting such a national minimum—for example, under the aid to families with dependent children (AFDC) program—while it may be desirable for social policy reasons, would primarily benefit people in other regions of the country.

COVERAGE. On the other hand, changes in the coverage of federally aided welfare programs could have much more of an impact on the hard-pressed cities in the northeast quadrant. Coverage, for example, could be extended to more of the working poor and the disabled, as well as all poor families with unemployed fathers, and perhaps also single persons and childless couples.

FISCAL RELIEF. Although it is the states that benefit most directly from fiscal relief under welfare reform, some counties and a few central cities (notably New York, Denver, and Washington) would also be likely to benefit. An important consideration for urban policy applying to fiscal relief under a welfare reform plan is the question of whether some or all states should be required to pass through a portion of this aid to local governments, and if so, which ones and on what basis. Two views have been advanced on this question. One would pass through fiscal relief according to the proportion of welfare spending by particular local jurisdictions. Another would pass through a fixed proportion of fiscal relief funds to all localities in a manner reflecting their welfare caseload, the rationale being that this population is a high-cost group for the provision of public services generally.

President Carter has set in motion a review process to examine welfare reform options. Whatever approach is ultimately taken—whether it be to establish a new system or institute a series of incremental changes in existing programs—the impact of welfare reform in relieving the human and fiscal problems of hardship cities needs to be evaluated according to this three-part framework.[13]

Basic Choices for National Policy

Just because urban hardship exists does not necessarily mean that new federal programs should be initiated, or old ones expanded, to aid hardship cities. This point is often made in the following terms. Most people do not choose to live in old and densely populated cities with high-rise life styles. The growth of new areas and new settlement patterns (both in suburbs and increasingly in small cities) reflects individual choices, which are perfectly appropriate, and in fact desirable, in a democratic society. The role of the old inner cities, it is argued, has to change and in fact is changing; public policy should not swim against the tide. Juxtaposed to this view, other observers of the urban scene advocate new federal programs to revitalize inner cities as centers of commerce and culture, as well as residential places

13. For a detailed discussion of alternative approaches to welfare reform, see chapter 8.

for a cross-section of income groups. There are innumerable positions in between these two poles that would involve a shift of national policy to put more or less emphasis on relieving urban hardship. Many who favor a shift in national policy to relieve urban hardship have as their purpose not necessarily to restore inner cities to some notion of past grandeur, but, in varying degrees, to give these cities a better capability to adjust to changed conditions and take advantage of opportunities for growth, revival, and new development.

It is important to remember that the troubled cities are not without hope. Revival is already occurring in many areas; some areas of these cities have long been healthy; other neighborhoods and areas in which urban problems have been especially severe are emptying out, with the result being large tracts of vacant or little-used land in the inner city. Increasingly, urban development efforts are being concentrated on transitional areas with growth potential and on efforts to stem further migration from the city, particularly on the part of commercial activities.

The essential question is how much we should do, and how we should do it, to concentrate development and rehabilitation activities in these older and declining cities in order to speed the revival process where it is underway and take advantage of new opportunities for development by channeling program funds and capital into these communities.

Although local initiative and state government efforts have immense importance in this context, the purpose of this chapter has been to focus on the ways in which federal policy can relieve urban hardship. This includes both the amount of federal resources to be allocated and the way in which they are to be deployed.

Many issues relating to countercyclical expenditure programs, as well as ongoing federal aid programs that affect local governments, come to the fore this year because so many of these programs expire in 1977—the block grants for community development, employment and training, and law enforcement, in addition to the emergency public works and countercyclical revenue sharing programs.

In particular, President Carter's countercyclical package, as this analysis shows, involves substantial additional funds for localities. Although these funds for the most part are channeled through countercyclical programs, there is every reason to expect that efforts will be made by both state and local officials to continue these higher levels of expenditure beyond the current recovery phase. A fundamental question is raised by these programs. If they were to become, in effect, permanent (or very long-term) programs, would we want the federal government to play as extensive a role as this would mean in some cities? Especially in cities such as Chicago or Cleveland, where the city government itself accounts for a relatively small share of public spending, the total amount of federal aid received under programs for public service employment or the revised block grants for community development program could amount to as much as one-third of the city government's operating budget.

Alternative Strategies

Beyond decisions about the level and distribution of funding under existing programs are important questions as to the types of urban programs that the federal government should be using. There are five basic ways in which federal strategy could be changed to place greater emphasis on helping to relieve urban hardship conditions, both in inner cities and older suburbs. Although there are trade-offs among them, these five strategies are not mutually exclusive; they can be combined in many ways.

A STRATEGY OF MULTIPLE FORMULA CHANGES. The existence of a fairly small number of large-scale federal programs that aid localities suggests that unless or until bold new spending initiatives are adopted, a strategy of multiple formula changes may be the best short-term solution for those who seek to increase help for cities. Such a strategy involves seeking out opportunities across the spectrum of federal domestic programs for existing programs to be modified, and in some cases expanded, to deal more effectively with urban hardship conditions. Considerable attention, for example, is being given currently to alternative allocation systems under the block grant program for community development. Likewise, a recent proposal to add passenger ridership as a formula factor in the allocation of grants for the operation of mass transit systems is an indication of interest in addressing formula grants to urban need. Similar opportunities exist for modifying the distribution formulas for other grant-in-aid programs.

THE CATEGORICAL GRANT APPROACH. A second approach for changing federal policies to deal with urban hardship conditions would be to fall back on a heavier emphasis on categorical grants as the best means of channeling funds to areas with urban needs. (The term "categorical grants" is used here to refer to grants to local governments or groups for fairly narrowly defined purposes.) The debate on this question involves the highly political question of whether federal grants enacted by Congress and allocated by federal officials would increase the funds going to cities with hardship conditions or whether, on the other hand, the growth of the newer suburbs in population and poltical power would result in, at best, a marginal improvement in the distribution of new categorical grant funds, but with lessened certainty and allocative efficiency. There is already evidence that the Carter administration may start down the road to re-categorization. Major initiatives have been advanced for youth employment and special action grants for community development, in the latter case as a supplement to the existing block grant program.

TARGETING ON SELECTED FUNCTIONAL AREAS. A third possible approach for strengthening the urban emphasis of federal policy is to allocate a larger proportion of federal grant funds to selected functional areas that are particularly important in the inner city. This approach bears a close relationship to the re-categorization strategy just discussed, although in this case block grants, as well as categorical grants, could be relied upon to alter the functional-area mix of domestic programs and increase the relative importance of programs that help to relieve urban hardship. In addition to the block grants for community development, other possibilities for altering the functional mix of federal aids include public service employment, mass transit, and public works programs.

NEW PROGRAMS FOR THE CITIES. Opportunities also exist for more far-reaching changes. Despite their diminishing political base, some spokesmen for large cities have called for a new national commitment to urban redevelopment in the form of a Marshall Plan for the cities. Such proposals have not been as seriously or vigorously advanced in recent years as they once were, perhaps reflecting changing demographic conditions, or perhaps a current conservative mood on spending issues.

More likely than a large new grant program to revive the inner city is a lending program along the lines of an urban development bank, or "Urbank." The Carter administration is currently working on such a proposal; thus, important issues as to the functions and operations of an urban development bank are soon likely to be at the forefront of discussions of urban policy. These issues might include the following. Should such an institution provide general financing assistance or focus on major development projects in hardship cities? If the latter, how large a subsidy is required to shift capital development projects to these cities? What kinds of credit facilitation techniques should be used—guarantees, interest subsidies, both? What should be used for collateral? (One possible approach is to use escrowed community development block grant funds as collateral for bank-approved projects.) How can private funds be tied into this program? Should such a bank include, as many have proposed, rural development, energy development, fiscal relief?[14]

AN INCOME STRATEGY. The fifth area of federal domestic policy of importance for cities is welfare policy, defined broadly as the transfer of resources (both cash and in-kind) to needy persons, as opposed to grants to jurisdictions. (Expanded public service job programs as an alternative to assistance payments are part of this option.) The design issues in this area and the time and resources needed to set up a program are such that initiatives cannot be expected to emerge quickly, even if an incremental and phased welfare reform strategy is adopted this year. Nevertheless, the problems for national urban policy created by the diversity of functional assignments and financial responsibility in American federalism can be seen as reasons for supporting income and employment strategies to aid needy individuals directly, as opposed to grants-in-aid to local governments. Both welfare reform and health insurance, two issues currently being widely debated, provide opportunities for emphasizing transfers and jobs for individuals in dealing with urban needs.

Public versus Private Sector Effects

One other major choice needs to be mentioned. The Carter budget revisions for 1978 propose substantial increases in federal grant programs for countercyclical purposes, much of which will aid hardship cities. Some of these benefits will have an impact on the public sector, some on the private. Additional revenue sharing funds, for example,

14. A recent round table discussion of urban fiscal experts held at the Brookings Institution revealed both a high level of uncertainty and difference of opinion as to the role such a new financing institution should play and a consensus on the need for better definitions than have been offered to date of the way it should operate. "Round Table Discussion on Urban Development Banking," transcript (Brookings Institution, March 1977; processed).

ERIC

can be used to hold down or cut taxes, as well as to increase local government spending.[15] Likewise, federal funds for public service employment can be used for substitution purposes (often despite provisions to the contrary) to pay the salaries of employees already on the payroll. Welfare programs and community development programs, on the other hand, can have a greater effect on the public sector in the sense that a relatively higher proportion of these funds is likely to add to the level of public spending.

Whether or not differences in effect between the public and private sectors have important policy implications depends, of course, on the goals attached to individual grant programs. For a program of general fiscal assistance (such as revenue sharing) this distinction may not be critical to its effectiveness. However, for other programs, such as those aimed at promoting public sector employment or job training, the question of the additive or stimulative public sector impact may be considered an important determinant of program effectiveness.

This issue, however, is not as open and shut as it may seem. Substitution effects are not necessarily bad; they offer a means of relieving the fiscal problems of older and declining cities and of local governments generally. Public service employment funds, for example, can be an important means of providing fiscal relief; there is considerable evidence that this has been the case of CETA public service employment funds in a number of hardship cities. A new law passed in 1976 seeks to reduce the substitution effect of public employment programs by requiring measures to designate these funds for special projects for new jobs for the disadvantaged. Still another view of this issue regards the stimulatory effect of some federal grants to local governments as excessive. For example, in some cases, matching requirements can result in a net drain on local revenue, as in the case of project grants from the federal government for sewage treatment plants and related kinds of major capital facilities.

The Future for Hardship Cities

The decline in the population of older cities and the commensurate rise in the population of the suburbs, combined with the overall shift

15. See Nathan and Adams, *Revenue Sharing: The Second Round*, for an analysis of the private and public sector impacts associated with revenue sharing and a general review of the "fungibility" issue as it relates to federal grants.

in population to the Sunbelt region, produce what in the final analysis is a political question. Will there be majorities to support strategies for domestic policy that seek in some measure to shift resources to hardship cities? There are both social and economic reasons for advocating such a policy. Socially, the issue is whether and how the national government should help deal with concentrations of the poor in the older core cities. Economically, the issue is whether the costs of abandoning these cities and their infrastructure are greater than the costs of aiding a revival process. Currently there are signs that the domestic policy of the federal government is changing for both reasons in a way that involves greater attention to what we have termed "urban crisis conditions." Whether this trend will continue and how far it will go remain to be seen.